Deloitte Touche Tohmatsu Limited
2 New Street Square
London
EC4A 3BZ
United Kingdom

Tel: +44 (0) 20 7936 3000
Fax: +44 (0) 20 7583 1198
www.deloitte.com

Direct: +44 20 7007 0884
Direct fax: +44 20 7007 0158
vepoole@deloitte.co.uk

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

Email: commentletters@ifrs.org

14 January 2014

Dear Mr Hoogervorst

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

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the IASB' or 'Board's) Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting* ('the discussion paper').

We support the Board's review of the Framework. A well-formulated and robust conceptual framework that articulates clearly fundamental concepts is an essential underpinning for global accounting standards. A robust Framework should promote and support consistency in accounting and financial reporting, interpretation and guidance for similar events, transactions and economic phenomena across industry sectors and jurisdiction boundaries. As capital markets become increasingly complex and global, the conceptual framework has become a critical element in developing globally-accepted accounting standards which provide relevant information to the marketplace.

Whilst we welcome the review of the Framework, some areas of the discussion paper, in particular those related to the distinction between liabilities and equity instruments, capital maintenance and the unit of account, address concepts that have not been fully deliberated or tested and on which there is no broad consensus. We think that a more resilient Framework would result if such concepts were more thoroughly explored at this stage and encourage the Board to use the Accounting Standards Advisory Forum to involve other standard-setting bodies as much as possible in seeking consensus on these concepts.

Although we agree with many of the preliminary views in the discussion paper, we have concerns relating to certain preliminary views included in it. These concerns and our recommendations are presented in the Appendix. We recommend that, when the Board issues the exposure draft of the revised Framework, all chapters of the Framework, including Chapters 1, 2 and 3 are presented, such that constituents can assess the whole Framework and determine whether it does provide that foundation for global accounting standards that we and others wish it to be.

Deloitte.

Although we comment on all aspects of the discussion paper in the Appendix, we wish to highlight the following matters:

- To serve its intended purpose, the Board should treat the Framework as a living document to be updated as necessary to keep pace with changes in thinking on conceptual matters. There should be an established process for reviewing the Framework on a recurring basis. Unless the Framework is kept up to date, there is a risk of tension and conflicts between the Framework and conclusions that the Board reaches in individual projects. As the IASB develops new standards, it should have such a process to evaluate whether decisions it makes are consistent with the Framework. Departures should be identified and justified.
- The IASB should have a plan for identifying and addressing any conflicts between the concepts and guidance in a revised Framework and existing IFRSs. It should identify any existing requirements that are contrary to the revised Framework and an action plan for resolving such conflicts. It would be unhelpful and potentially confusing to permit conflicts to exist for an extended period of time, in particular since those who apply and interpret existing IFRS requirements do so in the context of the Framework as it exists at any given time (see, for example, IAS 8.11).
- The IASB should not amend the Framework to include new ideas and concepts that have not been fully deliberated and tested. This is another reason that the Framework should be a living document and amended only as work in different areas is completed.
- The IASB should provide an appropriate level of detail in the Framework. The Framework should provide sufficient detail in its discussion of concepts such that it is clear how they are intended to be applied. However, the Framework should not to go into excessive detail about the accounting for particular transactions or events (e.g., how to measure or present particular transactions or when to derecognise elements of the financial statements). The IASB should not 'hardwire' views on accounting issues that would more suitably be resolved in individual standard-setting projects. In some areas, the discussion paper is too general and does not go into sufficient detail to be helpful (e.g., in Section 9 related to unit of account). In other areas, the discussion paper goes into more detail than seems suitable for a framework document (e.g., in Section 5 on distinguishing between liabilities and equity).

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

Deloitte.

Appendix

Section 1 Introduction

1. We disagree with the Board's position in DP 1.19 that interim financial reports should not be within the scope of the Framework. In our view, interim financial reports and annual financial reports are inextricably linked and the Framework should recognise this. Often in practice, we encounter conflicts or contradictions between IAS 34 and other IFRSs and our preference would be that the Framework encompasses annual and interim financial reporting. We agree with the other proposed exclusions in DP 1.19.

2. Whilst we agree that an important function of the Framework is to identify the concepts that the IASB should use consistently when developing and revising IFRSs, we do not think that the current Framework reflects appropriately the prominence that paragraph 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* gives to the Framework. In our view, this prominence needs to be reflected appropriately in a revision of the 'Purpose and Status' section. We agree that the changes proposed in DP 1.28 should be given prominence in the Purpose section of the Framework. At the same time, the Board should consider whether the purposes in DP 1.25(b)-(g) continue to be relevant.

3. We agree that, as noted in DP 1.25(a) and 1.27(a), the Framework is a fundamental resource to be used by the IASB as it develops future IFRSs, and assists preparers, users, regulators and auditors to understand and make consistent judgements about how to apply the principles in IFRSs in the absence of definitive guidance. In addition, given its significant responsibilities, the Interpretations Committee needs a robust Framework as they work in developing Interpretations and amendments to IFRSs.

4. Given these circumstances, IFRSs ought generally to be consistent with the Framework and reflect concepts that have been thoroughly deliberated and tested. Furthermore, the Board should have a plan or process for identifying and addressing conflicts between the Framework and IFRSs and thereby treat the Framework as a living document.

Status of the Framework

5. Ideally, the Framework would represent the fundamental principles of accounting and financial reporting as the IASB positions itself as a global standard-setter. In particular, the Board should use the Accounting Standards Advisory Forum to involve other standard-setting bodies as much as possible in seeking consensus on these fundamental principles. This agreement, established through the Framework, would establish a firm foundation on which IFRSs rest and according to which they are developed and interpreted in the future.

6. Whilst we agree that 'any decision to amend an existing Standard would require the IASB to go through its normal due process', we are disappointed with the implication in DP 1.22 that no assessment of the existing IFRSs will be undertaken as a result of the review of the Framework. If IFRSs are to be a coherent global set of financial reporting standards, such a review should be undertaken as soon as practicable to determine whether there are critical items that should be addressed as a matter of priority. We think that the IASB's *Due Process Handbook* is sufficiently flexible to allow the IASB to achieve the necessary broad-based support to add to its technical agenda any critical items (e.g., through requests for information, discussion with the IFRS Advisory Council, the Accounting Standards Advisory Forum, Global Preparers Forum and the Capital

Markets Advisory Committee) without waiting for the 'next' triennial Agenda Consultation. Even if an item is not added to the technical agenda immediately, the IASB should still maintain an inventory of items arising from the Framework that need to be addressed.

7. We agree that the Framework 'should guide the IASB as it develops new Standards' (DP 1.32) and think that this link should be made explicit in the Due Process Handbook (it is present for the work of the Interpretations Committee but not the IASB). We think that the IASB should explain in the Basis for Conclusions the concepts on which it has based a Standard and how it has applied those concepts in developing specific requirements. This would assist others in understanding how the IASB makes the Framework operational.

8. We also agree that the Framework should not prevent the Board from developing an IFRS that is seen to provide information that is relevant and understandable to users yet conflicts with certain principles laid out in the Framework, although the necessity for such a departure should be evaluated carefully. Consequently, we agree that the IASB should be able to issue a new or revised IFRS that conflicts with an aspect of the Framework. We agree that, if this happens, the IASB should describe the departure from the Framework, and the reasons why they think this departure appropriate, in the Basis for Conclusions on that IFRS. In such circumstances we think it desirable that the departure from the Framework be highlighted to Due Process Oversight Committee. In addition, given that by departing from the Framework the IASB will have determined that an aspect of the Framework may be deficient—in that applying it faithfully 'does not produce financial information about the reporting entity that is useful to the users'—the IASB should consider whether its decision should trigger a reassessment and revision of that aspect of the Framework.

Section 2 Elements of financial statements
Section 3 Additional guidance to support the asset and liability definitions

Assets

9. We welcome the proposal in the Discussion Paper to revise the definition of assets. We agree that a more rigorous definition of assets is desirable, although we disagree with how the IASB has provisionally decided to articulate the definition.

10. In our view, the definition of an asset rests on three sequential pillars:

- that an item represents a present right or resource, or bundle of rights or resources;
- the right or resource or bundle of rights or resources is capable of producing economic benefits; and
- the entity controls that right or resource or bundle of rights or resources.

11. While we address unit of account later in this response (see our comments in Section 9), we highlight here that the unit of account is critical in determining *what* the right or resource is, what it represents. For example, in a rate regulated environment, it is critical to determine whether 'the right' is a right to charge an individual customer, or the right to charge a pool of customers.

12. We agree that, under both the DP and our proposed definition, the 'asset' is the right (or resource) and not the ultimate economic benefit (c.f., DP 2.14).

Deloitte.

Right

13. We suggest clarifying the definition of 'rights' and support a natural definition of 'right', i.e., an 'entitlement to have or do something' (Oxford English Dictionary), because this allows the definition to encompass rights arising under contract, statute or other similar enforceable arrangements that provide rights to resources. Enforceability is critical to our definition of an asset. Contractual rights are well understood in IFRSs and the definition in IAS 32.13 ('an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law') provides a suitable basis for defining a 'contractual right', if that is deemed necessary. Similarly, statutory rights are those in statute or primary law. 'Other similar enforceable arrangements' would encompass rights arising under regulation. An asset can represent a bundle of rights and can include both tangible and intangible rights in one arrangement.

Capable of producing economic benefits

14. We agree that an asset must be capable of producing economic benefits, which can be tangible or intangible. 'Economic benefits' is a broad concept and includes not only inflows of benefits but also a reduction of outflows and the protection of value. For example:

    - a tax credit is capable of reducing an entity's future cash outflows in respect of income tax; and
    - a patent is capable of producing benefits in that it provides legally enforceable protection for an entity's intellectual property value and, indirectly, the cash inflows that it can produce.

    We suggest that the examples in DP 3.6 be revised to include examples of reductions in outflows and protection of value.

15. We agree with the IASB's Preliminary View in DP 2.35 that the definition of an asset should not retain the notion that economic benefits (inflows or outflows) are 'expected' and that the Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset exists. In our view, these issues are best addressed through recognition and measurement criteria at a Standards level.

16. We note some inconsistency in the wording around inflows. The Discussion Paper uses the terms 'inflows', 'cash inflows' and 'net cash inflows' without making clear whether those terms are used synonymously or if they should have different meanings. We suggest that the wording in the Framework should be consistent, unless the terms are intended to have different meanings, in which case, they should be defined. As mentioned above, the IASB should clarify that economic benefits include reductions of outflows and not only 'inflows'.

Controlled by the entity

17. The definition of control is critical to the definition of an asset. We agree that, to meet the definition of an asset, a right or resource must be controlled by the entity. We would define control as follows:

    > An entity controls a right or resource if it has the present ability to direct the use of the right or resource, and deny others the access to the right or resource.

Deloitte.

18. In our view, this definition is consistent with the articulation of 'power over the investee' in IFRS 10, in that the entity 'has existing rights that give it the current ability to direct [the investee's] relevant activities' (c.f., DP 3.21).

19. This definition would be operational for both exclusive rights and non-exclusive arrangements (e.g., licences to show films or play music), because even in non-exclusive arrangements the entity has enforceable rights (the licences) that are capable of producing economic benefits that are controlled by it for the period of the arrangement.

20. As noted above, we agree that the concept of control is part of the definition of an asset. At the moment, multiple control models exist in current and proposed IFRS, being the model in IFRS 9/ IAS 39, the revenue control model (ED/2011/6), the entity control model (IFRS 10) and control over a right or a bundle of rights as part of a leasing contract (ED/2013/6). While we have offered our own view that 'control' is an element of the definition of an asset, we think that the IASB should clarify which 'control model' it is using in the Framework and to explain how that model applies to different transactions and items.

Liabilities

21. Consistently with our proposed definition of an asset, we would define a liability as:

> a present obligation of the entity to transfer rights or resources as a result of past events.

Present obligation

22. Consistently with our views on 'right', we support a natural definition of 'obligation', i.e. 'an act or course of action to which a person is bound; a duty or commitment' (c.f., Oxford English Dictionary). Such a definition would encompass obligations under contract and obligations created by statute or other enforceable legal provisions under which entity has no genuine discretion to avoid transferring economic benefits. The definition of contract in IAS 32.13 would provide a suitable definition of 'contractual obligation', should that be deemed necessary.

23. We support the inclusion of a 'constructive obligation' in the definition of a liability, and would limit this to circumstances in which the entity's actions have given rise to a duty or valid expectation *to a third party* that the entity will act in a particular manner. Consequently, we support the additional guidance proposed in DP 3.50.

Economic compulsion

24. We think it important that the Framework explicitly refutes the notion of 'economic compulsion', which is not compatible with the definition of a liability as defined by the IASB in the DP or the definition proposed by us.

25. Except in limited circumstances, financial statements are prepared assuming that the reporting entity will continue in operation for the foreseeable future (i.e., is a going concern). In our view, it does not follow from this assumption that, in preparing those financial statements, the entity should be treated as being obliged to adopt a course of action that will enable it to continue in operation. This presumption would hold even if the entity would need to incur an obligation at some point in the future to enable it to continue operating. Until such time as the entity has no genuine discretion to avoid an outflow of economic benefits, an obligation will not exist.

Deloitte.

26. In our view, the notion of economic compulsion is more consistent with a 'valuation of the business' approach to financial reporting. If such 'liabilities' were recognised, at least some of them would result in the recognition of assets because they would relate to future events, and could be seen as goodwill. Economic compulsion is inconsistent with the concept of accountability, as it would reflect in the financial statements the effects of decisions that management have yet to take (c.f., our views on accountability in Section 9, below). In our experience, it is often difficult to draw a line between economic compulsion and other business risks, as was demonstrated in the aborted IFRS on Liabilities. This practical difficulty would lead inevitably to a lack of comparability and consistency in the operation of the concept.

Stand-ready obligations

27. DP 3.70 lists contractual arrangements that are known as 'stand-ready obligations' and which give rise to liabilities. We agree with these examples. However, consistently with our comment letter of 19 May 2010 on the *19 February 2010 Working Draft of a proposed IFRS 'Liabilities'*, we think that it is unclear what a 'stand-ready' obligation represents in a non-contractual context:

> Paragraph 15 [of the 2010 Working Draft] states that the start of legal proceedings against an entity is not in itself an event that gives rise to an obligation. In the food poisoning example (IE 1), the 2005 Exposure Draft stated the start of legal proceedings was a 'past event' that obliged the entity to 'stand ready' to perform as the court directs. Hence the entity had a 'stand ready' obligation. The Working Draft states that this original conclusion was wrong – an entity does not have a liability to 'stand ready' in this scenario. The Board's suggestion is to retain the example but to state that no liability is recognised. At the moment, the Working Draft does not say whether this is because the entity does not believe the food was poisonous or because the lawyers do not think the entity will be found liable. The Staff Paper appears to conclude that it is the former. However, as highlighted above, we believe the Staff Paper is also unclear on this issue and, in any case, is not an official pronouncement of the Board.
>
> It is unclear what a 'stand-ready' obligation represents in a non-contractual context. The responsibility described in paragraph 19 to make good another entity's environmental obligation would surely only arise if a guarantee had been given, which would be outside the scope of IAS 37 and any replacement Standard. *Consistent with the tentative decision reached by the Board in the March 2007 discussions on the draft Standard we believe the term should be abandoned*. [emphasis added]

We suggest that the Board clarify that a stand-ready obligation can exist only in the context of a contract.

Transfer of economic benefits

28. Our comments on the application of 'economic benefits' to the definition of an asset apply equally to obligations. However, it is our view that recognition of a liability should be affected by:

- The performance of obligations by either party under the contract giving rise to the obligation (see our comments on executory contracts, below); and
- The nature of an obligation to deliver an instrument that provides the holder with a claim on the entity's assets that does not meet the definition of a liability (see our comments on the distinction between liabilities and equity instruments, below).

Deloitte.

Non-exchange transactions

29. We advocated in our comment letter of 17 November 2011 on the IASB's *Agenda Consultation 2011* that the Board should address urgently non-reciprocal and non-exchange transactions such as income taxes, VAT and levies imposed by statute or other similar enforceable legal provisions. As recent experience with IFRIC 21 demonstrates, the Board should consider non-reciprocal and non-exchange transactions as a separate class of transactions. We think that the Framework should be capable of identifying the principles appropriate for reasonably foreseeable non-reciprocal and non-exchange transactions. In our view, such transactions need not follow the same recognition and measurement principles as those arising under exchange transactions.

Equity

30. We support defining equity as the residual of assets after deducting liabilities. We recognise that this definition of equity might necessitate categories of equity to be presented, with appropriate disclosure of their nature and relative priority of claim on the entity's assets. The distinction between a liability and equity is discussed in our comments on Section 5, below.

Other comments on Chapters 2 and 3

Reporting the substance of contractual rights and contractual obligations

31. We agree that further guidance in the Framework on assessing and reporting the substance of contractual rights and contractual obligations is needed. However, we think there should be more robust guidance than is proposed in DP 3.102. In addition, we think that the guidance should apply to *transactions and events* generally rather than be limited to *contracts*.

32. We agree that an entity should report the substance of transactions and the financial statement elements that arise from them. In determining the substance, an entity should identify and assess all aspects and implications of the transaction. In doing so, the entity should identify whether the transaction gives rise to new rights or obligations for the entity and whether it has changed the entity's existing rights or obligations. However, the DP is not clear on how applying the Board's concept of commercial substance differs from economic compulsion. The DP suggests that economic compulsion by itself does not create an obligation, but also implies that terms may have no commercial substance and should be disregarded because of economic compulsion. For example, in paragraph 3.108 it states 'although economic compulsion does not in itself create an obligation in the absence of a contract or other legal mechanism, it might be appropriate to take economic compulsion or significant economic incentives into account when determining whether a contractual claim against the entity is a liability or part of equity.' The paper gives an example of a financial instrument with a dividend blocker, a redemption option, and a step-up clause (paragraph 3.104) and suggests that the option not to redeem the instrument may lack commercial substance because of economic compulsion arguments. It is unclear how to implement these ideas. We agree with the notion of commercial substance, but reject that of economic compulsion. There is a need for more research around the topic of commercial substance and we encourage the Board to test its preliminary views against a broad range of real-life fact patterns when undertaking standard-setting activities.

Aggregation and disaggregation

33. We agree that a transaction or series of transactions that achieves, or is designed to achieve an overall commercial effect should be viewed as a whole. In addition, we agree that a transaction should be disaggregated if that presentation provides a more faithful representation of the

transaction and the rights or resources and/or obligations recognised or changed as a result of the transaction (DP 3.102(b)-(c)). This would establish a conceptual foundation for aggregating or linking transactions and for disaggregating a contract when, in substance, it is a bundle of distinguishable arrangements (c.f., Revenue and Insurance Contracts).

Trade date vs. settlement date

34. DP 3.112 acknowledges that trade date accounting is inconsistent with the concepts in the DP, and would also be inconsistent with our view of assets and liabilities articulated above (for the same reasons given in the DP). In our view, the role of trade date accounting is a topic too specific for the Framework and should be addressed at the Standards level.

Section 4 Recognition and Derecognition

35. We agree with the IASB's preliminary view that, in general, an entity should recognise all assets that it controls and recognise all liabilities when it has an obligation to deliver economic benefits and that an entity should discontinue recognition when it ceases to control an asset or no longer has an obligation to deliver economic benefits. Recognition and derecognition should be subject to the criterion described in DP 4.25 that entities 'need not, or should not, recognise an asset or a liability if recognising the asset (or the liability) would provide users of financial statements with information that is not relevant, or not sufficiently relevant to justify the cost; or if no measure of the asset (or the liability) would result in a faithful representation of the asset (or the liability) and of changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed.'

36. We agree with the IASB's preliminary view to remove references to probability from the recognition criteria for assets, but not for certain non-contractual liabilities, such as litigation. In our view, the current requirements in IAS 37 operate well for such items and result in appropriate accounting and reporting. For example, if an entity faces what it views as a frivolous lawsuit, the situation is not a measurement issue (e.g., by probability weighting a potentially adverse outcome and recording that amount as a liability), but a recognition question (i.e., is it probable that a present obligation exists). In determining whether it has a present obligation, it should consider whether it is probable that a court would render a verdict against the entity (and, by so doing, confirm that a liability exists). This contrasts with, for example, an insurance contract under which an outflow of cash may be improbable but there is no doubt that the entity is bound to make a payment on the occurrence of an insured event. The DP asserts that existence uncertainty is rare (DP 2.35(b)). We disagree with that assertion (e.g., in the context of litigation).

37. We also agree that the concept of an 'executory contract' is an important element in considering the appropriateness of recognising assets and liabilities and that the additional clarification of that concept proposed in DP 3.110-112 would be valuable. In particular, the Framework should distinguish clearly a 'right of use' from an executory contract.

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

38. As noted above, we support defining equity as the residual claims on assets after deducting liabilities. However, the ideas presented in this section of the DP are untested and have not been thoroughly researched and debated. Some are fundamentally different to how liabilities and equity are distinguished currently under existing IFRSs. The Board should not amend the Framework to

Deloitte.

include new ideas and concepts until it has had a chance to consider them, and the related implications, properly. In particular, the Board needs to test its proposed principles against a broader set of instruments that cause problems in practice today under IFRS 9/ IAS 32. In addition, if we accept that equity is a residual, the definition of a liability becomes critical together with unit of account issues (e.g., whether an instrument is bifurcated). If the Framework in this area is not well researched and robust it will not be resilient, and we will likely see a reversion to exceptions from the Framework for different classes of instruments.

39. We agree with the IASB that it should not introduce the concept of 'mezzanine capital' as an additional element between liabilities and equity (DP 5.51(b)). The Framework should provide indicators to assist in determining appropriate categories. In our view, this approach provides a clearer distinction between liabilities and equity instruments and provides additional information to users beyond the current binary distinction between liabilities and equity.

40. At a basic level, equity instruments may be identified simply as those that give the holder a claim on the entity's assets but do not meet the definition of a liability. For example, a typical ordinary or common share gives the holder rights to dividends paid at the entity's discretion and to a share of the entity's residual assets upon liquidation. In our view, shareholders' rights to discretionary dividends do not represent an obligation of the entity (an entity may be, to a greater or lesser extent, expected by its shareholders to pay dividends but, as noted in our response to Sections 2 and 3 above, we do not think that this constitutes a 'constructive obligation' unless enforceable under law), and the latter should be excluded from the debt/equity consideration as it is currently under IAS 32.

41. Non-controlling interests represent a claim against the group but do not meet the definition of a liability (in that there is no obligation to deliver economic benefits) and should be classified as a component of equity.

An instrument is due to be settled by delivery of an instrument that itself meets the definition of equity

42. These instruments/ transactions may take many different forms, from a simple share split or share consolidation to an obligation to deliver shares with a fixed or determinable fair value. IFRSs currently have two different rules for such instruments/ transactions (those in IFRS 2 and IAS 32), neither of which articulate a principle. The IASB should consider identifying a principle and conform either or both standards to it. For example, the concept that an obligation to use shares as 'currency' ('shares to the value of') constitutes a liability is practiced and well understood in many jurisdictions.

The method of settlement of an instrument (for example, in equity or in cash) is subject to optionality or to the occurrence of contingent events

43. We acknowledge that some contracts (for example, a convertible bond) may have two or more components which fulfil the definition of different elements (e.g., a contract that has both a liability component and an equity component). For such contracts, we suggest maintaining the concept of bifurcation to present each component in its appropriate group of elements when this is required by a Standard or this provides relevant information. The Board should consider unit of account issues (what instruments should be bifurcated and how), for example, puttable shares. Consistently with our views on recognition (Section 4), the liability component of such a contract should be derecognised when the entity no longer has an obligation.

Deloitte.

Section 6 Measurement

44. We recognise the considerable work that the IASB has undertaken on various aspects of measurement in its recent projects, in particular the role of fair value (IFRS 9) and of cash flow-based measures (Insurance Contracts, IFRS 9 Impairment, lease receivables and lease liabilities carried at amortised cost). We agree with the IASB's preliminary view that, at this time, a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements. In our view, one role of the Framework is to identify the circumstances in which a particular measurement basis *would* provide the most relevant information for users. Consequently, we think that the Framework should provide a more comprehensive discussion of the measurement bases available, when it would be appropriate to use them and the circumstances when it might be appropriate to change a measurement basis.

45. We agree that it is useful to have a measurement objective. However, the proposed measurement objective is not compelling as it only re-states the objective of financial reporting generally. If such an objective is included, it should focus on how the choice of measurement provides the most relevant information to users of financial statements about what is measured (i.e., economic resources and changes in economic resources).

46. The measurement objective should also address the circumstances in which it would be appropriate to link the measurement bases of assets and liabilities, for example when assets held are used to measure liabilities, and whether this leads to a change in the measurement basis for either element or both.

47. We suggest grouping measurements into cost-based measurements and current measurements, which would include fair value and other cash flow-based measures. We agree that these broad measurement bases are those from which an appropriate measure of an element of the financial statements should be drawn, both on initial recognition and subsequently. In our view, it is the subsequent measurement of items recognised in the financial statements that present the most challenges.

48. The Framework should articulate clearly the measurement objective of cash flow-based measurement: is it to determine an entry price, and exit price, a settlement value, fulfilment value, or something else? The Framework should also articulate clearly when cash-flow based measures are appropriate. This is critical because DP 6.52 suggests strongly that such measures are the default measure when the other approaches are not available, too costly to obtain or do not provide sufficiently relevant information.

49. The Framework should address unit of account explicitly in the context of measurement. Unit of account issues are particularly relevant to measurement, as we discuss in Section 9, below.

50. The Framework should provide indicators of when a particular measurement basis is more appropriate, using the objective of providing useful information as the principal reason for any particular choice. The IASB's 'consumption' vs. 'value' model is a good starting point for this discussion. It will be necessary to acknowledge, where necessary and appropriate, the role that the business model plays in selecting a particular measurement: when a particular measurement base is appropriate and which of the alternatives within that base provides the most relevant information for the statements of financial position and comprehensive income. We see Insurance Contracts, financial institutions using IFRS 9 and hedging for risk management purposes as

Deloitte.

examples of circumstances in which the business model is particularly relevant to the choice of measurement bases. We comment further on the role of the business model in IFRSs in our response in Section 9, below.

51. We are concerned that the specificity in the Board's preliminary views on measurement appears to limit its ability to permit or require fair value accounting for financial instruments. The Board's preliminary view is that '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' (Q 12(c); DP 6.88). Similarly, a 'cost-based measurement will normally provide the most relevant information about … liabilities that will be settled according to their terms' (DP 6.103). The IASB also suggests that the number of different measurement attributes should be the smallest number necessary to provide relevant information (DP 6.23). In our view, the IASB should not write the Framework in a way that would preclude either a fair value option or fair value hedge accounting for financial instruments where the entity holds financial assets for collection and settle liabilities according to their terms. There are circumstances where fair value measurement is appropriate for financial instruments held for collection or settlement according to their contractual terms.

52. Conversely, the DP suggests that 'current market prices of a charge-for-use asset [e.g., in leasing, renting, franchising, and charging entry fees, parking, landing or docking fees, tolls, or royalties] reflect its ability to generate cash flows by charging for use over its whole economic life, under both existing contracts and future contracts' (DP 6.93). Additionally, 'the relevance of information about current market prices is likely to increase as each individual asset owned by the entity becomes more significant … (for example, land, buildings, parks, ships, aircraft and similar high-value items') (DP 6.95). We think it premature to include this discussion in the Framework. The DP seems to imply that fair value accounting should be expanded to many items that are not currently accounted for at fair value. However, many such items are not currently accounted for at current market values under IFRSs and there has not been a proper debate about expanding fair value accounting in this manner.

53. The Discussion Paper does not acknowledge that changes in measurement bases may occur. This would be the case, for example, with non-current assets that fulfil the criteria to be classified as 'held for sale' according to IFRS 5. The Framework should articulate whether and, if so, when it would be appropriate to change a measurement basis of an element recognised in the financial statements and how the effect of that change in measurement basis should be reflected in the statement of profit or loss/ comprehensive income.

54. The Discussion Paper does not address measurement of equity. Depending on the Board's views on how to distinguish liabilities and equity, it is possible that equity will include instruments other than common shares. If the statement(s) of profit or loss and other comprehensive income is (are) to reflect in some manner all non-owner movements in equity, as proposed, then the Board will need to address the measurement of equity and whether and how changes in measurement are reflected in the statement(s) of profit or loss and other comprehensive income.

55. We agree with the IASB's general approach to measuring a liability. We agree that a cash flow-based measure is appropriate for a liability without stated terms, for the reasons discussed in DP 6.99. More generally, we think that the Framework should include guidance or criteria on determining an appropriate discount rate, in particular whether this could or should be entity-specific or a market rate. Discounting is a pervasive issue and is currently addressed only at the Standards level.

56. We agree with the IASB's preliminary view that a liability with stated terms that is a contractual or statutory or similar liability that will be settled according to the stated terms would normally use a cost-based measurement. A current market price would be appropriate if the entity can and will transfer the liability to a third party. We agree that certain types of liabilities (e.g., those arising under long term insurance contracts or post-employment benefits) would normally apply a fulfilment (cash flow-based) measure.

57. We agree with the preliminary view in DP 6.19 that since derivatives and similar financial assets and financial liabilities often have little or no cost, a cost-based measurement does not provide information that is useful in assessing future cash flows, nor does it provide the most relevant information to users. Consequently, we agree that a current measure is the appropriate measurement for such items, particularly because many derivative financial instruments have an active market or are referenced to such a market. However, the Board should be attentive to where in the statement(s) of profit or loss and other comprehensive income changes in such financial assets and financial liabilities are presented. The recent experience of changes in 'own credit risk' suggest that where changes in value are reported is an important consideration and ought to be assessed carefully.

58. We agree that disclosure of measurement uncertainty (e.g., ranges of reasonable inputs for uncertain assumptions) may be appropriate for items with measurement uncertainty. In addition, fair value may be a useful disclosure for some items measured using a cost-based measurement in the primary financial statements. However, disclosure of an additional measurement basis should not be used by the Board as a substitute for making a determination of the appropriate measurement attribute in each standard-setting situation.

Equity Method

59. The Board may wish to address equity method accounting at the Framework level to some extent, as opposed to holding to their preliminary view in DP 6.5 to exclude it, because otherwise it may need to address issues related to the equity method at the standards level without any conceptual basis. Considering the principles related to the equity method at a conceptual level would help the Board to develop a standards-level solution in a better way. For example, equity method may be deemed to be a cost-based measurement in light of the requirements in IAS 28.10 and the Board may wish to consider at a conceptual level whether this conclusion is consistent with other cost-based measurements.

Foreign Currency Translation

60. Concepts pertinent to incorporating the results of foreign operations in the financial statements of an entity should be acknowledged and articulated in the Framework as they are necessary tools for standard-setting. While the Board addressed the profit or loss versus other comprehensive income issue for net investments in foreign operations (and hedges) in Section 8 of the DP, in our view, that analysis was not sufficiently comprehensive as it did not consider measurement aspects of foreign currency translation.

Section 7 Presentation and Disclosure

61. We agree with the IASB's decision to address presentation and disclosure in the Framework. As financial statements become more complex and voluminous documents, clear principles are needed to guide both presentation and disclosure. In particular, the objective of disclosure needs

Deloitte.

to be defined and articulated clearly and the principles supporting the objective identified. We agree that the distinction between 'presentation' and 'disclosure' described in DP 7.10-11 is a useful clarification and can be used effectively in the Framework.

62. We support continuing to have four primary statements and suggest that the Framework should address explicitly the relationship between the statement(s) of profit or loss and other comprehensive income and the cash flow statement. We encourage the Board to explore, at the standards level, how these primary statements can be presented in a more meaningful way in order to assist users to assess more easily the relationships between them.

Disclosures

63. We support having disclosure principles in the Framework. We think that the fundamental principle for disclosure should be relevance of the information to users of the entity's financial statements and that any disclosure should be clear, concise, balanced and understandable (c.f., Conceptual Framework QC 30). That implies that disclosures are entity-specific (reducing the likelihood of boiler plate). As we noted in our comment letter on the IASB's *Agenda Consultation 2011*, such a framework*:*

> would ensure that disclosures are made more relevant for users while at the same time ensuring that only useful information is provided, therefore making the workload for preparers proportionate. As such, we support the European Financial Reporting Advisory Group's 'proactive activities' and the US Financial Accounting Standards Board's parallel efforts in this critical area. We note also the recent efforts of the New Zealand Institute of Chartered Accountants (NZICA) and the Institute of Chartered Accountants of Scotland (ICAS), and preliminary work undertaken by the Canadian Accounting Standards Board (AcSB) staff in this area. A framework would assist the IASB when determining the disclosure requirements to be included in new standards and provide additional guidance for preparers to consider in determining which disclosures to include in their financial statements.

64. Consequently, we disagree with the view in DP 7.33 that notes serve only to supplement the primary financial statements. In particular, the notes serve to provide relevant information to users about items, events, facts and circumstances not recognised or reflected in the primary financial statements. i.e., the notes have an important role in financial reporting more broadly. This information enables users to understand the entity's business model, governance and performance. We recommend that the role of the notes be expanded to include an objective of providing additional useful information to enable users to assess better the financial position, performance and cash flows of the entity and to make decisions about the entity.

Materiality

65. We agree that the current articulation of materiality in QC11 is clearly and consistently understood by auditors, preparers and others trained in accounting and auditing as such training necessarily includes gaining an understanding of the concept of materiality and its application in practice along with the other concepts underpinning financial reporting.

66. However, we acknowledge that applying the concept of materiality to disclosure in practice is increasingly being seen as leading to situations in which too much irrelevant information or not enough relevant information is provided. This situation is particularly acute in public companies, for which concern over the consequences of omitting a disclosure on the grounds of materiality can

lead to a 'checklist' approach. As such, we see a need for a better articulation of the concept of materiality as it applies to disclosures. We think that this discussion should take into account the output of the IAASB's current project on Disclosures to maintain consistency in the concept of materiality for the purposes of preparing and auditing financial statements.

Clarity in disclosure

67. The IASB's January 2013 Disclosure Forum has provided the IASB with a foundation on which it can develop a general framework for quantitative and qualitative disclosure in financial reporting. We agree that important information should not be obscured by real or perceived barriers in IFRSs. We support the steps suggested by the IASB in its Feedback Statement (May 2013) to make it easier for preparers to place information with related information (e.g., accounting policies with the related financial statement items) and appropriate linkages of financial statement items (e.g., how debt information may be disclosed). The Framework could usefully include criteria or indicators that would assist in prioritising information that is critical to understanding an entity's financial statements in such a way that users can find the information most useful to making decisions easily. In addition, in order to provide a level of discipline when developing disclosure requirements, the IASB should consider and demonstrate how additional disclosures would enhance the ability of the financial statements taken as a whole to provide relevant information to users.

Other issues: Aggregation and Offsetting

68. We are not convinced that the Board has established a thorough conceptual basis for presentation and disclosure issues. In particular, the Board may want to research further on topics including:

- *Aggregation*. How items of income and expense should be/ may be aggregated and presented.
- *Offsetting*. The analysis in DP 7.29 and 7.30 does not articulate a principle of gross presentation (e.g. presentation should reflect gross cash flows unless the ultimate cash flows will happen net) and net presentation, which is not helpful in developing and reviewing the existing standards.

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

69. We do not think that it is possible to define the concept of performance in precise terms or to define a single metric that encapsulates all views on what constitutes 'performance'. We acknowledge that there are two broad approaches for reporting performance. In our view, the IASB should make a decision for one of those models and then apply that model consistently. The rationale for the decision should be explained clearly in the Framework.

70. The first model is based on the G4+1 Position Paper*: Reporting Financial Performance*, issued in August 1999. Under this model, all changes of assets and liabilities should be reported once, in the period in which they arise. Once they have been recognised, items related to changes in assets and liabilities should not be recognised again in a future period in a different component of the single statement of comprehensive income. This enforces the principle that once changes of assets and liabilities can be measured reliably, they should be recognised in the appropriate component of a statement of changes in assets and liabilities. The components of the statement could be those proposed by the IASB in its Discussion Paper *Preliminary Views on Financial*

Statement Presentation (2009): business, financing, income taxes and discontinued operations. Proponents of this view argue that all changes in assets and liabilities provide information about an entity's performance and that not one number or sub-total has more information content than another. They also hold the view that there is no conceptual justification for recycling and that consequently it should be prohibited. However, this approach may still require particular presentation solutions for situations such as cash flow hedge accounting.

71. In the second model, a 'storage tank' (other comprehensive income) is established as a separate component to hold changes in assets and liabilities that relate to subsequent periods until recycling occurs. This reflects the Board's current approach in IFRSs as well as its preliminary view in the DP, in which some changes in assets and liabilities are reported in 'profit or loss' and others in 'other comprehensive income.' This model accommodates certain dual measurement approaches, under which assets are measured at a current measure in the statement of financial position but using a cost-based measure in the profit and loss, with the difference being recognised in a component of other comprehensive income until such time as recycling is triggered.

72. If the Board were to decide to follow this second model, recycling should occur when related assets or liabilities are derecognised, impairment losses are recognised for related assets or a natural reversal occurs with the passage of time. Recycling in such circumstances would, in our view, provide relevant information about the entity's performance in the period. While we are not in favour of either of the recycling alternatives as proposed in the DP, we lean more towards Approach 2B with respect to the items that would be eligible for recognition in other comprehensive income. However, we think that all items of other comprehensive income should be recycled to profit or loss in the subsequent period when this reclassification results in relevant information.

73. While we acknowledge the work done by the Board in the DP to identify groups of items that would qualify for recognition in other comprehensive income, we encourage the IASB to undertake further research to identify a principle or indicators for when an item should be recognised in other comprehensive income. This would assist the Board in making consistent decisions about whether the effects of a transaction or change in an asset or a liability should be reported initially in profit or loss or other comprehensive income.

Section 9 Other Issues

Chapters 1 and 3 of the existing Conceptual Framework

74. We think that the IASB should revisit the Framework's discussion of accountability ('stewardship'), the concept/role of 'prudence', and reliability to assess whether they are needed. The absence of these concepts from the current Framework has been at the centre of many debates about the role of IFRSs in the financial crisis and recent political debates. We urge the IASB strongly to revisit the role of both in the Framework.

Accountability/ stewardship

75. We support giving appropriate prominence to the role of accountability in financial reporting. In our comment letter of 3 November 2006 on the Discussion Paper on what became Chapters 1 and 3 of the Conceptual Framework, we disagreed with the proposed change of emphasis and supported (and continue to support) the broad meaning of stewardship suggested in the pre-2010 IFRS Framework. We noted that:

Deloitte.

> The DP suggests that stewardship solely relates to providing information to assist in an assessment of the competence and integrity of 'stewards' (i.e. management, directors). This does not reflect the meaning of stewardship suggested in the current IFRS framework, which highlights the fact that management, in addition to having the responsibility for allocation of the assets entrusted to it for the benefit of shareholders, also has an obligation to provide its shareholders with an account of what it has done with those assets. This account has to be a faithful and complete historic description of the entity's assets and liabilities at the beginning and end of the accounting period, coupled with management's explanation of how those balances changed during the period. Recognizing this broader meaning of 'stewardship' as one of the primary objectives of financial reporting both supports all of the qualitative characteristics of financial reporting information proposed in the DP, and helps to align management's behaviour with the objectives of all of the entity's stakeholders. Such a stewardship objective will emphasize the role of financial reporting as a dialogue between management and the owners of the business. To satisfy this aspect of a stewardship objective of financial reporting, management, as preparers of financial reporting information, will provide a summary in the financial statements of past transactions and their economic impact on the entity, and, in doing so, will appropriately carry out its role not only as overseers of the business but also as the communicators of the entity's performance to existing and potential owners of the entity, investors and stakeholders.

76. Financial reporting is central to the effective operation of the relationship between management (as agents) and owners/ stakeholders (principals). The importance of an honest dialogue between management and owners/ stakeholders has been re-emphasised by securities market regulators, including the U.S. Securities and Exchange Commission and the UK Financial Reporting Council, in recent years. For example, the lack of alignment of management's behaviours with the objectives (or interests) of the entity's stakeholders (i.e., not only shareholders) was a key criticism levied at financial institutions in particular at the time of the financial crisis and subsequently.

77. Finally, linkages between past and current performance and between the financial statements and management commentary are an important part of an entity's continuous responsibilities to communicate a cohesive and comprehensive portrayal of its long-term value proposition. This important aspect of the accountability of management for the entity and its activities is at the heart of contemporary developments in corporate reporting, for example the work of the International Integrated Reporting Council.

78. Acknowledging accountability as fundamental to financial reporting in the Framework is, in our view, important. Whilst we consider the concept of accountability to be implicit in the Framework, to make it explicit would not represent a fundamental change

Reliability

79. In our comment letter of 3 November 2006, we supported (and continue to support) reliability as an essential attribute of financial information, noting that in addition, reliability

> is an additional and separate characteristic that should not be subsumed in the attributes of faithful representation and verifiability. We agree with the view expressed in AV2.2 that where indirect verification is used, the method used should be one that may be expected to yield an estimate of the economic phenomenon that is free from material error or bias, i.e., there should be a requirement for the information to be reliable. We believe it is inappropriate to conclude that an estimate should be included in the financial statements if

there is significant concern that the methodology used to produce that estimate is inappropriate, which is the conclusion one would get to if the attribute of verifiability is applied alone without the attribute of reliability.

80. We think that 'prudence' and neutrality can co-exist as characteristics of financial reporting; however 'prudence' needs to be defined robustly to prevent disagreement about how it should be applied in practice. In particular, it should not be an invitation for intentional bias. As such, we support the description in DP 9.21: 'the exercise of caution when making estimates and judgements under conditions of uncertainty' and see it as an attribute of reliability. We think that this notion and neutrality can co-exist, especially when the exercise of caution helps to establish guidelines around reliability.

Business model

81. The business model has been employed explicitly or implicitly by the IASB in several recent IFRSs, including IFRS 8 *Operating Segments*, IFRS 9 *Financial Instruments* and the forthcoming IFRS on Insurance Contracts. While many business models exist, they share a common characteristic in that they are observable and verifiable, and while they are relatively static they do evolve over time, responding to economic, technological, regulatory and other developments. The business model helps to explain the business and the way in which it operates and adds value. Standards that differentiate accounting based on common business models may enhance relevance in depicting a specific situation. For other situations, basing the accounting on different business models may not enhance relevance and actually impede comparability. The Board should consider further indicators of when business models enhance the information provided and thus should be incorporated into standards, and indicators of when incorporation of the business model might detract from the value of the information provided.

82. For example, an entity's business model might be informative of the way an entity will generate future cash flows and returns and, therefore, accounting based on the business model may provide users relevant information. We think that financial reporting should enable reporting of transactions and events in a manner that is a faithful representation of an entity's business model, noting that when employed in an IFRS, the business model provides more relevant information to users.

83. The business model also assists in determining the elements and components of performance. In our view, the elements and components of performance may provide more relevant information when referenced to an entity's business model. Given that business models are entity-specific, we think that the extent to which the business model is relevant to reporting components of an entity's performance should be addressed at the Standards level.

Unit of account

84. We do not agree with the Board's preliminary view expressed in DP 9.38. In our view, it is critical that the Framework should at least provide indicators about how to determine the unit of account in order to provide consistency between IFRSs. In our experience, as IFRSs become more sophisticated and require varying degrees of aggregation and disaggregation of items recognised in the financial statements, the unit of account is a recurring application challenge that preparers, users, securities market regulators and auditors face on a daily basis. In our view, it is not appropriate to leave unit of account considerations entirely as a Standards-level decision, chiefly because determining the appropriate unit of account is a cross-cutting issue that arises in many different areas, including compound instruments, puttable shares, written puts on an entity's own

equity, embedded derivatives, multiple element revenue transactions, embedded leases, sale-leasebacks, lease-leasebacks, and asset groups for impairment purposes. We do not think that the two characteristics identified in DP 9.28 and the cost/ benefit constraint identified in DP 9.39 are sufficient, as we discuss below.

85. At a fundamental level, the unit of account is always a question of whether to aggregate or disaggregate: whether this is done for purposes of element definition, recognition/ derecognition, measurement, or presentation/ disclosure is a secondary issue. An appropriate unit of account can be:

- Part of an item (e.g. a cash flow or a right to use)
- A single item
- A portfolio of similar items
- A portfolio of dissimilar items
- A mix of items (e.g. a net exposure comprised of both cash inflows and outflows in the future, as is envisaged by the IASB in their macro hedging project)

86. In addition, the unit of account concept operates at various levels:

- *Definition of an asset/ liability*. For example, it is unlikely that a contract with an individual subscriber would create a regulatory asset, however if the unit of account was (say) a defined subscriber base, such assets might exist.
- *Recognition/ derecognition*. For example, in IFRS 11 *Joint Arrangements*, the assets and liabilities that would be recognised if the arrangement is assessed at the arrangement level might be different from those recognised if the arrangement is assessed at the venturer level.
- *Measurement*. For example, the role of control premiums in measuring significant holdings of inter-corporate investments is not reflected in the simple price x quantity equation.

87. We think that the Framework should establish and articulate high-level criteria and indicators of when the appropriate unit of account would be a component, a contract (or whole asset) or a portfolio. These criteria or indicators might include independence or interdependence of cash flows, legal form, business purpose, transferability, characteristics and risks, and measurement uncertainty. This would create an accepted base from which any unit of account question could be determined, not only by the IASB but also those developing, auditing and enforcing accounting policies in the absence of an IFRS.

88. The Framework should discuss when it is appropriate to account for an item at the component, a contract (or whole asset/ liability) or portfolio level. For example, the IASB's proposals in the Leases exposure draft (ED/2013/6) would require componentisation of a lease to reflect rights of use: the Framework could usefully include a discussion of what drives the decision to componentise an item, and the attributes of individual components (the component boundary), or conversely when aggregating items is seen to provide more useful information.

89. A review of the discussion paper alone demonstrates that unit of account issues are pervasive, arising in the discussion of elements generally, definitions and recognition of assets and liabilities, and measurement. Ideally, the Framework should provide guidance (in the form of indicators or criteria) that would guide the Board, preparers and auditors in making consistent decisions when

determining and assessing unit of account issues, either in the context of standard-setting or developing and auditing accounting policies in the absence of specific guidance.

90. Furthermore, in our view this would provide discipline requiring the IASB to address unit of account issues explicitly when developing an IFRS.

Going concern

91. We agree that Framework should address the concept of going concern and that the going concern assumption might be relevant in the situations identified in DP 9.42—9.44.

92. The current Framework notes that if the intention or need to liquidate or curtail operations significantly exists, financial statements may need to be prepared on a basis other than a going concern basis. The Framework could usefully expand this comment to indicate the fundamental objective of financial reporting remains relevant and that, even when the going concern assumption is no longer appropriate, the financial statements should still provide information that is relevant and a faithful representation of what it purports to represent.

Capital maintenance

93. The Framework should establish and articulate the concept of capital maintenance and what role it plays in financial reporting. However, the DP confuses capital maintenance with the unit of measurement (the currency unit). In our view, the Framework should:

- address the issue of unit of measurement (or currency to be used). The conditions that make a particular currency acceptable as the unit of measurement (measurement currency) should be established clearly in the Framework. The effects of changing prices should be considered in relation to the measurement currency; and
- address the issue of capital maintenance. The current Framework accepts two possible approaches: maintenance of the financial capital or maintenance of physical capital. In our view, financial capital maintenance is the most appropriate concept and the Framework should articulate this concept of capital maintenance alone.

94. Paragraph 4.60 of the current Framework notes that ‘capital maintenance is concerned with how an entity defines the capital it seeks to maintain’ ultimately providing the ‘point of reference by which profit is measured.’ The discussion paper has not explored further concepts of financial capital and financial capital maintenance and the various approaches that may exist. In particular, it has not explored interactions that might exist between certain types of business models and measurement bases, and the consequences they may have on the definition of what is ‘financial capital’ and, consequently, what are financial capital maintenance adjustments. These adjustments are important to understand, because paragraph 4.63 of the current Framework suggests that such adjustments are not accounted for in profit. The question arises whether some elements that would be presented as elements of other comprehensive income would in fact not be elements of capital maintenance adjustments. Further thought on these concepts and their interaction with other concepts may provide light on how to report/ present income and expense, as well as explaining what profit represents.

95. It is our experience that, while few jurisdictions apply IAS 29, there are many more jurisdictions in which inflation is significant. Inflation adjustments are related with the currency used (nominal currency or adjusted currency); they are not capital maintenance adjustments. We encourage the IASB to consult more widely in those jurisdictions in which inflation is significant (but short of

hyperinflation) as it prepares the Exposure Draft and reflect the results of those discussion in the discussion of the measurement currency.

Transition/ Effective Date of the revised Framework

96. There may be a need for the IASB to consider transition and/or the effective date of the new Framework. IAS8.11(b) requires reference to the Framework when making accounting policy judgments. If the final revised Framework is different from the exiting one, constituents may need time to review existing accounting policy judgements. Alternatively, the IASB may prefer to clearly grandfather revisiting past decisions made in accordance with the older Framework. We do not recommend this alternative because it would mean that two versions of the Framework would coexist, which would be confusing.