

4 December 2015

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

AOSSG comments on IASB Exposure Draft ED2015/3 *Conceptual Framework for Financial Reporting*

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB's ED 2015/3 *Conceptual Framework for Financial Reporting* (the "ED"). In formulating its views, the AOSSG sought the views of its constituents within each jurisdiction.

The AOSSG currently has 26 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan, and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their feedback after having initially been developed through the AOSSG Conceptual Framework Working Group.

The AOSSG highly appreciates the IASB's efforts in issuing the ED to improve *The Conceptual Framework for Financial Reporting* (the "*Conceptual Framework*"). In the AOSSG's view, the *Conceptual Framework* is the cornerstone for the IASB's work in developing or revising Standards, and that this initiative will contribute greatly to the development of high quality and internally consistent accounting standards, whereby resulting in provision of more useful IFRS-based financial information by entities. As a regional group of accounting standard setters, the AOSSG suggests that the IASB emphasise that the primary role of the *Conceptual Framework* is to provide a conceptual basis for standard-setting (rather than to assist preparers to develop consistent accounting policies when no Standard applies to a particular transaction or event, or

when a Standard allows a choice of accounting policy). This clarity will assist the IASB to develop Standards in the future.

Of a number of important proposals in the ED, AOSSG members would like to highlight the following as the most important areas for the IASB's redeliberation process.

- Measurement (see our comments on Questions 8 and 9 of the ED);
- Definitions of 'profit or loss' and 'other comprehensive income' and the mechanism of 'recycling' (see our comments on Questions 12-14 of the ED);
- Recognition (see our comments on Question 6 of the ED); and
- Definitions of 'a liability' and 'present obligation' (see our comments on Questions 3 and 4 of the ED).

In addition, AOSSG members find the following areas are highly important for the IASB to proceed with the Conceptual Framework project:

- Principles of derecognition (see our comments on Question 7 of the ED);
- Effects of business activities on accounting standards setting (see our comments on Question 16 of the ED); and
- Concepts of capital and capital maintenance (see our comments on Question 18 of the ED).

For our detailed comments, please see Appendices-I and II of this letter.

In addition, please see Appendix-III for a separate comment letter on the ED from the AOSSG Islamic Finance Working Group.

Finally, AOSSG members would welcome the opportunity to discuss with the IASB members and Staff on any aspects of our comments before finalising a review of the *Conceptual Framework*.

The AOSSG hopes that our comments will be helpful for the IASB's future deliberations. If you have any questions, please feel free to contact us.

Yours sincerely,



Jee In Jang
AOSSG Chair



Tomo Sekiguchi
AOSSG Conceptual Framework Working Group Leader

APPENDIX I – Detailed comments from the AOSSG on ED/2015/3 *Conceptual Framework for Financial Reporting*

Question 1—Proposed changes to Chapters 1 and 2

Do you support the proposals:

- (a) to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management’s stewardship of the entity’s resources;**
- (b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality;**
- (c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;**
- (d) to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and**
- (e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?**

Why or why not?

(A) Emphasis given to the notion of ‘stewardship’

1. The AOSSG generally agrees with the proposal to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management’s stewardship of the entity’s resources. Some members note that the assessment of management stewardship of an entity’s resource is not itself the primary focus of all stakeholder groups.
2. Nevertheless, some members feel that it may be helpful if the IASB could more fully explain the interaction between the decision usefulness and management’s stewardship so as to avoid confusion by readers.

(B) Reintroduction of explicit reference to the notion of ‘prudence’

3. Many AOSSG members agree with the proposals to reintroduce the explicit reference to the notion of ‘prudence’ and to state that prudence is important in achieving ‘neutrality’. Nonetheless, some feel that further clarification would be helpful, because the notion of ‘prudence’ is sometimes understood (or intended) as the meaning of the asymmetrical prudence.
4. In addition, some members suggest that the IASB acknowledge the role of ‘asymmetric prudence’ in relevant parts of the main body of the *Conceptual Framework*, as they believe that it has a role to play in some aspects of the discussions, including the definitions of an asset or a liability, recognition and measurement. Some of these members believe that the notion of ‘asymmetric prudence’ does not contradict the notion of ‘neutrality’ as far as it is factored in by the IASB, because paragraph 2.17 of the ED states that a neutral depiction is without bias in the selection or presentation of financial information, which all relates to the

entity's judgement. Another view is that 'asymmetric prudence' has a role in supporting the fundamental qualitative characteristic of 'relevance'.

5. At the same time, other members strongly object to 'asymmetric prudence' being embedded into the *Conceptual Framework*.

(C) Substance over form

6. The AOSSG generally agrees with the proposal to state explicitly in the *Conceptual Framework* that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form.
7. However, some members question if the notion of 'substance over form' relates only to 'faithful representation', because information that does not communicate the substance would not provide relevant information as well. If the IASB agrees with the view, the notion of 'substance over form' should be stated similarly to the 'cost constraints', which is not subordinate to either 'relevance' or 'faithful representation.'

(D) Measurement uncertainty

8. Many AOSSG members disagree with the proposal to clarify that measurement uncertainty is one factor that can make financial information less relevant. Instead, they feel that measurement uncertainty should be discussed as a factor that may affect the degree of faithful representation, because in many cases, the higher the measurement uncertainty is, the more difficult to achieve faithful representation. In addition, some members think that discussion about the effect of measurement uncertainty in the context of relevance would further blur the boundary of the notions of 'relevance' and 'faithful representation.'

(E) Reliability

9. The AOSSG generally agrees with (or does not strongly oppose to) the proposal that the *Conceptual Framework* should continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information. Some members note that the term 'reliability' is susceptible to different interpretation.
10. However, the AOSSG thinks that the term 'relevance' could be interpreted in different ways, as paragraph 2.6 of the ED merely states that relevant financial information is *capable* of making a difference in the decisions made by users. Some AOSSG members suggest that the IASB consider changing the paragraph to clarify that this is intended to mean that financial information is relevant even when it could *inappropriately* affect users' decisions. This is because such information could still make a difference in users' decisions, while the information is not represented faithfully in the financial statements. If the IASB is not of the view, 'faithful representation' would be merely an attribute of 'relevance.'

Question 2—Description and boundary of a reporting entity Do you agree with:

- (a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and**
- (b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25?**

Why or why not?

(A) The proposed description of a reporting entity

11. The AOSSG generally agrees with the proposed approach with regard to the description of a reporting entity (which does not propose specific parameters to decide who could be a reporting entity), primarily because the AOSSG believes that it is not the role of an international standard setter to specify the types of entities that should apply its Standards. Instead, what an international standard setter can do would be to identify the types of entities that it has in mind when it develops its Standards.
12. Nevertheless, taking account of previous discussion, some members think that it would be helpful if the *Conceptual Framework* includes explicit discussion as to whether a division of an entity may be a reporting entity.

(B) The discussion of the boundary of a reporting entity

13. The AOSSG welcomes the discussion of the boundary of a reporting entity in paragraphs 3.13 to 3.25 of the ED. However, AOSSG members offer the following comments:
 - (a) It would be helpful if the IASB clarifies how the discussion of the boundary of a reporting entity stated in the ED is consistent with the concept of ‘control’ and the definition of ‘an asset’ (which refers to the concept of ‘control’). This is primarily because the concept of ‘control’ and definition of ‘an asset’ do not distinguish between direct and indirect control, while the boundary of consolidated financial statements is explained using the notions of direct and indirect controls. Some wonder what would be the possible implications for the use of these notions (for example, they wonder if the use of these notions may imply that the consolidated financial statements are regarded as the financial statements of the parent entity instead of the group). If so, the implication of the notion should be deliberated by the IASB more explicitly.
 - (b) The term ‘unconsolidated financial statements’ should be more fully explained, especially as to if the term is intended to be different from the term ‘separate financial statements’ as defined in IAS 27 *Separate Financial Statements*.

(C) Other comments

14. Some AOSSG members believe that intention of paragraph 3.9 of the ED is unclear, because the paragraph seems to discuss two very separate matters: (a) whether an entity is assumed to have substance of its own and (b) which perspective should be adopted when preparing consolidated financial statements. Discussion among AOSSG members revealed members have different understandings of this matter. If the IASB intends the latter, it would be necessary for the IASB to have explicit discussion with its constituents before reaching any conclusion in this regard, because paragraph BC3.3 of the ED seems to indicate the former.
15. Some members question if the description in paragraph 3.23 of the ED (stating that, in general, consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements) would ever be appropriate, primarily because the ED proposes to keep silent as to who should prepare general purpose financial statements (see paragraph 3.11 of the ED.) Some members feel that such a description would be appropriate if financial statements prepared in accordance with IFRSs are intended solely for the purpose of providing financial information with capital markets’ participants. However, a different conclusion may be appropriate in other contexts, especially, when they are used for the purpose of compliance with commercial code in individual jurisdictions. Hence, it may seem appropriate for the IASB to avoid stating such a presumption in the *Conceptual Framework*. If this is the case, the IASB may also find it

appropriate to delete the last sentence of paragraph 3.25 of the ED which explains that it is necessary to disclose in the unconsolidated financial statements how users may obtain the consolidated financial statements.

16. With regard to the discussions in Chapter 3 – *Financial Statements and the reporting entity* of the ED, some AOSSG members offer following comments other than those stated in the preceding paragraphs:

(a) The notions of ‘joint control’ and ‘significant influence’

Without explaining the notions of ‘joint control’ and ‘significant influence’, some members feel that the discussion in the chapter is incomplete.

(b) Combined financial statements

It would be helpful if the IASB clarify in paragraph 3.17 of the ED that the combined financial statements are entities that meet neither consolidated financial statements nor unconsolidated financial statements.

Question 3—Definitions of elements

Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity):

(a) an asset, and the related definition of an economic resource;

(b) a liability;

(c) equity;

(d) income; and

(e) expenses?

Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?

(A) General comments

17. The AOSSG welcomes the proposal to improve definitions of elements in the *Conceptual Framework*, because they are supposed to address some tensions between the definitions of the existing *Conceptual Framework* and accounting requirements in Standards. However, many members believe that ‘profit or loss’ should be defined as an element in the *Conceptual Framework*.

18. In addition, there are suggestions from some members that the *Conceptual Framework* should specify elements other than those proposed in the ED, as below.

(a) In addition to the proposed elements in the ED, other components of financial statements, such as ‘profit or loss’, ‘comprehensive income’, ‘other comprehensive income (OCI)’, ‘contributions from equity participants’ and ‘distributions to equity participants’ should be defined as elements of financial statements in the light of helping to meet objectives of financial statements and ensuring the linkage between each of elements.

(b) In addition to the proposed elements in the ED, ‘gain’, ‘loss’, ‘OCI’ and ‘comprehensive income’ should be defined as elements of financial statements, because they are widely used in IFRSs and are considered as important in accounting practice.

(B) Definitions of ‘an asset’ the related definition of ‘an economic resource’

19. AOSSG members generally agree with the proposed definitions of ‘an asset’ and ‘economic resource’ (including the exclusion of a reference to a likelihood of inflows to an entity from the definition of an asset), because they would help address problems noted for the definitions in the existing *Conceptual Framework*.
20. However, some members offer the following comments:
- (a) The proposed definitions of the terms ‘an asset’ and ‘an economic resource’ may inappropriately exclude acquired goodwill from meeting the definition of an asset, because the acquired goodwill is by definition residual and it is not a right in and of itself. In order to capture such missed items, one idea is to change the definition of ‘an economic resource’ as follows (the proposed additions are underlined.):

An economic resource is either a right that has the potential to produce economic benefits or other source of economic benefits.
 - (b) Paragraph 4.8 (b) of the ED seems to imply that an asset of an entity may exist even when a right is not enforceable by law as far as there is high level of expectation as to how a counterparty is likely to act. However, it is questionable if a right could ever exist when it is not enforceable by law. In addition, if the paragraph intends that only an enforceable right may meet the definition of an asset, there would be an asymmetry between the definitions of an asset and a liability, because the proposed definition of a liability encompasses obligations that are not necessarily enforceable (such as, some constructive obligations).
 - (c) If the proposed definitions of ‘an asset’ and ‘a liability’ are finalised maintaining the notion of a ‘bundle of rights’, the concept of ‘unit of account’ would become significantly important when determining when an asset (or assets) should be recognised (or derecognised) and how it (or they) should be measured.
 - (d) Care is required when using the term ‘an asset’ in the *Conceptual Framework*, because it is currently used to refer interchangeably to both a right and a bundle of rights.

(C) Definitions of ‘a liability’ and ‘equity’

21. Some AOSSG members do not feel comfortable with finalising the proposed definition of ‘a liability’ given that the IASB plans to undertake a research project on the *Financial Instruments with Characteristics of Equity* (hereinafter, the ‘FICE project’), because the proposed liability would need to be reconsidered depending on the outcome of the research project. Taking into account a significant interplay between the *Conceptual Framework* project and the FICE projects, these members believe that the IASB should proceed with the work to finalise the definitions of a liability and equity concurrently.
22. Yet many other members do not oppose to proceeding with the proposed definition of ‘a liability’, as far as the IASB explicitly acknowledge in the Basis for Conclusions that the proposed definitions of a liability and equity do not exclude or limit the possibility of revisiting these definitions in the future if the IASB finds it appropriate to do so as part of the FICE project, thereby any conclusion in this project is tentative and the IASB remains open to any alternative ideas.
23. Nevertheless, many AOSSG members believe that, in principle, the definition of ‘a liability’ and separation between a liability and equity should be considered together, primarily because the definition of a liability is currently used primarily for the two purposes that are

intertwined with each other; namely, (a) determining whether or not a present claim exists, and (b) determining whether a present claim should be classified as a liability or equity. For example, when considering whether a blue chip company with a publicly announced dividend policy has a present obligation to pay dividends under the proposed guidance and therefore, a liability for future dividends, it is important to consider the liability/equity distinction not just whether a present claim exists. In addition, some members are concerned that the phased approach may inappropriately rule out the possibility of the ‘three-category approach’, which may be helpful to achieve the different objectives regarding the classification in the credit side of the statement of financial position.

24. Furthermore, some members worry that the proposed definitions of a liability and equity would give rise to inconsistency with requirements of the existing Standards. For example, paragraph 4.30 of the ED seems to imply that an obligation to transfer economic resources for a variable number of shares would be considered as an equity claim, which is contrary to existing accounting requirements of IAS 32. They feel that it would be inappropriate to finalise the proposed definition without considering that such requirements in the existing should be reconsidered in the future. This is because, although the *Conceptual Framework* may not always be consistent with requirements of Standards, they think that it would be desirable to maintain consistency between the *Conceptual Framework* and the Standards as much as possible.
25. For comments on the proposed definition of the term ‘present obligation’, please refer to our comments on Question 4 in this letter.

(D) Definitions of ‘income’ and ‘expense’

26. AOSSG members generally agree with the proposed definitions of ‘income’ and ‘expense’, although some members think that ‘gain’ and ‘loss’ should also be defined as elements similar to the FASB’s Concept Statement No. 5 *Recognition and Measurement in Financial Statements of Business Enterprise*.

Question 4—Present obligation

Do you agree with the proposed description of a present obligation and the proposed guidance to support that description? Why or why not?

27. Many AOSSG members do not agree with the proposed definition of the term ‘present obligation’ or find it problematic. Specific comments include the following:
 - (a) It is unclear as to what ‘no practical ability to avoid the transfer’ (as proposed in paragraph 4.31(a) of the ED) means in practice, and how it is intended to differ from the requirements contained in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The proposed wording in paragraphs 4.31 to 4.35 appear to be intended to be very definitive on when a present obligation would arise, as it would include situations involving economic compulsion or obligations that are in theory avoidable but only by ceasing to operate. One way to interpret the intention is, for example, immediately on entering into a stand ready arrangement such as a guarantee or a bank overdraft facility, the guarantor/bank would be considered as having no practical ability to avoid the transfer an economic resource, and would be required to recognise the guaranteed amount or the overdraft facility immediately upon issuing these arrangements.

- (b) Although the present claims against an entity's economic resources would meet the definition of a liability, it would not be the case that all future outflows of economic resources arising from incurred obligations which the entity has no practicable ability to avoid if it is to continue operating (such as future asset maintenance obligations arising from the asset's use to date) meet the definition of a present claim. Accordingly, there is a concern that the proposed definition of a liability may result in inadvertent and inappropriate result.
- (c) Although interaction between the proposed definition of the term 'present obligation' and the notion of 'economic compulsion' is in part explained in paragraphs 4.73 o 4.75 of the Basis for Conclusions in the ED, the notion should be more fully explained in the main body of the *Conceptual Framework* taking into account the importance of the notion. It would also be helpful if the IASB could explain whether, and if so, how the conclusion stated in the IFRIC Update of July 2006 with regard to IAS 32 – *Classification of a financial instrument as a liability or equity* could be influenced¹.
- (d) The term 'no practical ability to avoid the transfer' seems very subjective, especially with the introduction of a notion of 'economic compulsion'. There is a concern that this would unduly broaden the scope of liabilities to include instances of economic dependency by emphasising unavoidable future outflows of economic resources rather than focusing on the existence of a claim against the entity.
- (e) It would be helpful if the IASB could double-check whether the use of the word 'economic benefits' within the context of the proposed definition of 'a present obligation' in paragraph 4.31 of the ED is appropriate, and whether the term 'economic resources' should be used instead. Some find that using the term 'economic benefits', the proposed definition of 'a present obligation' narrows the scope of a liability inappropriately.
- (f) The proposed guidance on 'past events' is not sufficiently robust, particularly when *more than one* event establishes the extent of the obligation. For example, it is unclear from the ED which event would give rise to a present obligation, when different events establish the 'basis' (e.g., an entity operating at the beginning of each year and incurring sales-based levy) and the 'amount' (e.g., the entity generating sales during the year) of future transfer. In addition, for obligations that are determined on the basis of multi-period measures (e.g., average of asset balances for past 5 years), it could be problematically interpreted that an entity's continual existence in any period would constitute a past event for each relevant future period.

Question 5—Other guidance on the elements

Do you have any comments on the proposed guidance?

Do you believe that additional guidance is needed? If so, please specify what that guidance should include.

Unit of account

¹ The IFRIC Update of July 2006 stated, among others, the following:

The Board confirmed that such a contractual obligation could be established explicitly or indirectly, but it must be established through the terms and conditions of the instrument. Thus, by itself, **economic compulsion would not result in a financial instrument being classified as a liability under IAS 32.**

The Board also stressed that IAS 32 requires an assessment of the substance of the contractual arrangement. It does not, however, require or permit factors not within the contractual arrangement to be taken into consideration in classifying a financial instrument.

28. AOSSG members believe that the notion of ‘unit of account’ would become even more important when the IASB develops Standards by reference to the revised *Conceptual Framework* in the future, due to the proposed change to the definition of elements (especially, a definition of an asset).
29. Yet many members feel that the discussion of the unit of account in the ED is not sufficiently robust for the purpose of assisting the IASB’s future work, and further work is still required. Hence, the AOSSG encourages the IASB to continue to explore how the notion of ‘unit of account’ can be more robustly articulated in the *Conceptual Framework*.
30. AOSSG members have mixed views on paragraph 4.59 of the ED, which proposes that it may be appropriate to select one unit of account for recognition and different unit for measurement. Some members believe that, in principle, the unit of account should be the same for recognition and measurement, and that the paragraph should be deleted. On other hand, some other members agree that the unit of account for the purpose of recognition and measurement may be different reflecting the different purposes. Hence, they believe that, although it would be challenging for the IASB to find the right concept for a unit of account at this stage, acknowledgement of different units of accounts is at least a important step forward.
31. In addition, AOSSG members are not sure of what is intended by paragraph 4.58 of the ED, which proposes that a unit of account is selected for an asset or a liability after considering how recognition and measurement will apply. Specifically, as this paragraph seems to imply that a unit of account for recognition and measurement should be the same, some AOSSG members wonder if the paragraph is inconsistent with paragraph 4.59 of the ED.

Question 6—Recognition criteria

Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?

32. AOSSG members have mixed views on the proposed approach to develop principles based on the three qualitative characteristics (relevance, faithful representation and cost benefit constraint) as set out in paragraph 5.9 of the ED.
33. Some feel that the proposed approach is generally appropriate, because they think that detailed recognition criteria should be considered at the standard level.
34. However, many members feel that the proposed recognition criteria in the ED are not appropriate. Some members question if the proposed structure of recognition discussion itself is appropriate. This is because some doubt if ‘faithfully representation’ can ever be a factor to consider recognition, because, without regard to measurement, they believe that there would never be a recognition that would not faithfully represent an economic phenomenon. In addition, some question if the ‘cost-benefit’ should be a factor for recognition, because they believe that, without regard to measurement, recognition itself can ever be too costly.
35. Many members also think that the proposal is too abstract and would not be sufficiently helpful for the IASB to develop Standards or for preparers to develop their accounting policy. In their view, it would be very difficult for the IASB to conclude whether an asset or a liability should *not* be recognised in the financial statements when a right or an obligation meets the definition of an asset or a liability stated in the *Conceptual Framework*.
36. Besides, some members feel that it is hard to understand or implement the concepts proposed in the ED. AOSSG members’ comments include the following:

- (a) Overall, the ED proposes to loosen up threshold for the definitions and recognition of an asset and a liability, and appears to put too much pressure on measurement. For example, paragraph 5.19 of the ED states that users of financial statements *may*, in some cases, not find it useful for an entity recognise assets and liabilities with *very low* probabilities of inflows and outflows of economic benefits without showing what else could be done in that situation. This might lead to confusion both for the IASB and preparers in determining recognition criteria either in Standards or in an entity's accounting policy. Considering such disadvantages, on balance, retaining the 'probability criterion' in a positive manner would be more helpful.
- (b) The concept of the 'existence uncertainty' proposed in paragraph 5.13 (a) of the ED is difficult to understand or implement, because the concept seems to suggest that an entity should turn back to the prior step of reviewing whether an obligation meets the definition of a liability when it refers to the *Conceptual Framework* in its accounting practice.
37. Hence, some members suggest that the IASB consider retaining the 'probability criterion' as part of the recognition criteria, along with addressing other perceived shortcomings in the recognition discussion. In this connection, one member published a paper that proposes how the 'probability criterion' could be retained in the *Conceptual Framework*².
38. In addition to the comments on the 'probability criterion', some members offer the following comments:
- (a) Paragraph 5.11 of the ED seems to give the impression that when recognition is not considered to be relevant, disclosure would be sufficient. However, it should not be the case, because due to different roles of the face of financial statements and related disclosure, disclosure cannot compensate the recognition of an element.
- (b) Paragraph 5.9 of the ED should be reconsidered, as they find that the paragraph seems to imply that recognition of an asset or a liability is dependent on whether other related elements also meet the recognition criteria, whereas they think that recognition of an asset or a liability should be determined independently of whether other related elements also meet the recognition criteria.
- (c) If a review of the *Conceptual Framework* is finalised as proposed in the ED, the cost constraint in recognition criteria could be interpreted inappropriately when the *Conceptual Framework* is used by preparers to develop their accounting policy. This might signal whether the use of the *Conceptual Framework* by preparers should really be acknowledged as one of its purposes. Nevertheless, without further guidance, risks of an inappropriate interpretation about the recognition discussion would remain.
- (d) Should the IASB finalise the discussion regarding the recognition criteria, it would be important for the IASB to improve the guidance on 'low probability' as a factor of relevance. As currently read, there is a risk of interpreting 'very low probability' in paragraph 5.19 of the ED as a pre-requisite for non-recognition, which eliminates the need for 'low probability' as a factor of relevance in paragraph 5.18 of the ED. However, if 'very low probability' is merely intended to be an additional consideration when the probability of flows of economic benefits is low, more robust discussions of other considerations would be necessary.

Question 7—Derecognition

² See the ASBJ's Short Paper Series No.2 *Recognition Criteria in the Conceptual Framework*.

https://www.asb.or.jp/asb/asb_e/international_activities/discussion_short/discussion_short_20151112.jsp

Do you agree with the proposed discussion of derecognition? Why or why not? If you do not agree, what changes do you suggest and why?

39. AOSSG members welcome introduction of descriptions relating to derecognition in the *Conceptual Framework*. However, many members wonder if the proposed guidance is helpful for the IASB to develop or revise the Standards on consistent concepts, because they only provide catalogue as to how derecognition could be accounted for rather than providing judgment criteria as to how derecognition criteria should be established (including, whether, and when full or partial derecognition should be selected). Some members believe that derecognition should be simply a mirror image of recognition. On the other hand, other members believe it should not be the case, at least because the unit of account may be different.
40. Some members believe that derecognition criteria should mirror the recognition criteria, and suggest that the *Conceptual Framework* provide more robust guidance following the principle. These members believe that ‘risks-and-rewards’ is likely to be useful in assessing whether a ‘control’ exists, but do not believe that ‘risks-and-rewards’ should be regarded as a principle in its own right.
41. Other members who believe that derecognition should not be simply a mirror image of recognition think the IASB should clarify which of the two aims ((a) the assets and liabilities retained after the transaction or other event that led to derecognition and (b) the change in the entity’s assets and liabilities as a result of that transaction or other event) should be prioritised, because otherwise the proposal would not provide any guidance for the IASB’s standard-setting process. Some are of the view that an objective of reporting an entity’s *financial performance* should be prioritised, when considering derecognition criteria at a Standard level.

Question 8—Measurement bases

Has the IASB:

- (a) correctly identified the measurement bases that should be described in the *Conceptual Framework*? If not, which measurement bases would you include and why?**
- (b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?**

(A) General comments on Measurement Chapter

42. Reflecting the difference in views as to what financial statements should purport to represent, AOSSG members have various views on Chapter 6 *Measurement*.
43. Some members fundamentally disagree with the measurement proposals of the ED, because they believe that the *Conceptual Framework* should aspire to the current value measure as a single measurement basis. These members also think that:
- (a) More prominence should be given to informational value of the current value measurement, when considering the selection of a measurement basis.
- (b) The objective of the measurement (including which concept of capital and capital maintenance is supposed) should be clearly explained at the start of the chapter on measurement.

44. On the other hand, many other members welcome the mixed measurement model proposed in the ED, but nevertheless think that improvement should be made to the discussion in this chapter. Specific suggestions will be explained in the following paragraphs.

(B) Identification of measurement bases

45. Following general observations stated in paragraph 43 of this letter, some members feel that this chapter appears largely to be a codification of current practice rather than a set of principles and guidance that is aspirational (or forward-looking) in nature. Hence, they do not consider this chapter is helpful.
46. Some are of the view that rather than classifying measurement bases into two categories (i.e., historical cost and current value), the IASB should classify measurement bases on the basis of the following dimensions (that provides ingredients of measurement bases), such that measurement bases can be classified more accurately.
- (a) Whether to update inputs for measurement; and
 - (b) Whether to adopt market participants' assumptions or entity-specific assumptions when measuring an asset or a liability.
47. Other comments from AOSSG members include the following:
- (a) Proposed classification in paragraph 6.20 of the ED: The proposed classification into (a) fair value and (b) value in use (for assets) and fulfilment value (for liabilities) should be reconsidered, because there seem to be some overlap between the two.
 - (b) Current cost: Paragraph 6.18 of the ED explains the notion of 'current cost', whereas the relevant part of the Basis for Conclusions states that the IASB would be unlikely to consider selecting current cost as a measurement basis when developing future Standards. If the IASB has no intention to use current cost in the future Standards (see paragraph BC6.23 of the ED), it would seem unnecessary or strange to describe the current cost in the main body of the *Conceptual Framework*. In addition, the proposed description about 'current cost' in the ED is confusing, because it is discussed within the context of 'historical cost' while the 'current cost' is not considered to be part of 'historical' by nature. This may indicate that the proposed classification does not work well.
 - (c) Effects of impairment: Many would not consider costs adjusted for impairment fall under the historical cost category, as the measure reflects current value at some point of time. Hence, a measurement that has reflected impairment should be labelled with a different name (such as, 'adjusted historical cost').
 - (d) Fair value: The term 'fair value' in the proposal in the ED seems to be similar to the definition of 'market value' (as opposed to 'fair value') by the International Valuation Standards (IVSs). Taking into account the meaning of 'fair value' under IVSs, the IASB should consider using the term 'market value' instead. If not, it may be helpful if the IASB explains fully as to why it uses the term 'fair value' with substantially different meaning.
 - (e) Descriptions about 'transaction costs': Unless the term 'transaction cost' is defined or explained in the *Conceptual Framework* more fully, it would be difficult to appropriately explain the accounting principles thereto. In addition, the proposal in the ED is at best unclear, because it does not explain how the transaction cost should be accounted for within the context of 'dual measurements' (for example, it is unclear as to whether transaction cost should be added to an item measured at FV-OCI).

(C) Descriptions of the information provided by each of the measurement bases

48. Some members believe that the *Conceptual Framework* should describe the conceptual rationale that underpins historical cost measurement and current value measurement, because of different views held by different stakeholders.
49. Other members suggest that descriptions about the information provided by each of the measurement bases (in particular, a strength and weakness of the information) should be discussed in combination with the discussion about selection of measurement bases.

Question 9—Factors to consider when selecting a measurement basis

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

50. Many AOSSG members welcome the inclusion of discussions about factors to consider when selecting a measurement basis in the *Conceptual Framework* by making reference to qualitative characteristics of useful financial information. Nevertheless, many members disagree with the proposals in the ED for various reasons, and suggest the following:

Measurement objective

- (a) Some members believe that the *Conceptual Framework* should state the measurement objective that underpins the objective of general purpose financial reporting.

Relevance

- (b) Many members believe that the effect of ‘measurement uncertainty’ should be dealt with in the context of ‘faithful representation’ instead of ‘relevance’, because in many cases, the higher the measurement uncertainty is, the more difficult to achieve faithful representation. Some caution against giving too much emphasis on the effect of ‘measurement uncertainty.’
- (c) Some members think that paragraph 6.54 of the ED is not sufficiently helpful for the IASB to develop Standards based on consistent concepts. Some believe that ‘how an asset or liability contributes to future cash flows’ should be the sole factor when selecting measurement bases, because the notion is consistent with the objective of financial reporting (which is to help users to assess the prospects for future net cash inflows to an entity). In addition, they believe that there should be separate discussion about measurement bases for the purposes of reporting an entity’s *financial performance* and *financial position*. When selecting a measurement basis for the purpose of reporting an entity’s *financial performance*, they believe that ‘how an asset or liability contributes to future cash flows’ should be assessed on the basis of the ‘nature of an entity’ business activities conducted’ (see paragraph 71 of this letter), but it would not necessarily be the case for measurement bases for the purpose of reporting an entity’s *financial position*.

Other qualitative characteristics

- (d) Some members believe that the IASB should be careful with the way paragraph 6.52 is written as it seems to be strongly advocating the use of a consistent measurement basis at both initial and subsequent recognition, which may not necessarily be useful in all circumstances.

Transactions with holders of equity claims

- (e) As for the measurement bases in relation to transactions with holders of equity claims discussed in paragraph 6.69 of the ED, some members are of the view that the measurement bases should be based on which item (the asset or the equity) has a more reliable measurement instead of measurement based on the current value of the asset received.

Measurement of equity

- (f) Some members believe that paragraph 6.80 of the ED (which proposes that some individual classes or categories of equity may be measured *directly*) should be reconsidered, because the description may not be in line with the concept that equity should be residual especially when the equity is remeasured. They believe that, direct measurement of equity would be inappropriate in remeasurement.

Question 10—More than one relevant measurement basis

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

51. Among AOSSG members, there are mixed views as to the notion of ‘more than one relevant measurement basis.’
52. Some members do not support, at a concept level, the entrenchment of mixed measurement approach between and within the statement of financial position and the statement of financial performance, because they believe that the use of OCI would not reflect economic phenomena.
53. Other members generally agree with the proposal in the ED in that it acknowledges the existence of ‘more than one relevant measurement basis.’ However, they are concerned about a lack of concepts behind the use of OCI, and suggest that the *Conceptual Framework* provide conceptual justification for items that are eligible to be recognised in OCI with the use of different measurement bases in different statements. In this connection, some members think that one of the most urgent matters of the *Conceptual Framework* is to clarify the definition of financial performance, OCI and comprehensive income at concept level, and to define the principle of recognition of OCI so as to fundamentally resolve the issue.
54. An example of the seemingly lack of consistent principle is requirements of IAS 16 *Property, Plant and Equipment* and those of IAS 40 *Investment Property*. This is because the former requires surplus to be recognised in OCI, while the latter requires fair value changes to be recognised in profit or loss. Some members suggest that the IASB explain the reasons of this inconsistency in the light of the different concept of capital.

Question 11—Objective and scope of financial statements and communication

Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?

55. AOSSG members generally agree with discussion regarding the objective and scope of financial statements and the use of presentation and disclosure as communication tools.
56. However, members offer the following comments:
- (a) It is unclear why Chapter 7 of the ED only refers to the statement of financial position and the statement of financial performance, and does not refer to the statement of cash flow and the statement of changes in equity.

- (b) Paragraphs relating to the communication principles in the ED (for example, paragraph 7.18(a) of the ED), by nature, seem more suitable in an individual Standard than in the *Conceptual Framework*, because they discuss an entity's actions rather than the IASB's consideration.

Question 12—Description of the statement of profit or loss

Do you support the proposed description of the statement of profit or loss? Why or why not?

If you think that the *Conceptual Framework* should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.

57. Some members are of the view that fundamentally, there should be only one income statement, and accordingly, the *Conceptual Framework* need not include a discussion of OCI and recycling. Accordingly, there are of the view that the *Conceptual Framework* does not need to include a discussion on OCI and that recycling is inappropriate.
58. On the other hand, other members welcome the proposed description of the statement of profit or loss. However, they believe that 'profit or loss' should be defined or more fully explained in the *Conceptual Framework*.
59. There is a suggestion that the term 'profit or loss' should be explained by using the notions of 'all-inclusiveness' and 'irreversibility (or deemed irreversibility) of the uncertainty' such that nature of profit or loss and timing of recognising profit or loss can be explained broadly.

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

Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not?

If you disagree, what alternative do you suggest and why?

60. Among AOSSG members, there are mixed views as for the use of OCI.
61. Some members are of the view that fundamentally, there should be only one income statement, and accordingly, the *Conceptual Framework* need not include a discussion of OCI and that recycling is inappropriate.
62. On the other hand, other members welcome the explicit discussion about OCI in the *Conceptual Framework*, but believe that the *Conceptual Framework* should provide definition and helpful guidance regarding 'profit or loss' and 'OCI.' Hence, they believe that the presumption of paragraph 7.24 of the ED that all income and all expenses will be included in the statement of profit or loss is inappropriate without providing clear rationale.
63. Some believe that OCI should be essentially considered as the 'bridging item' to link different measurement bases used for the statement of financial position and the statement of financial performance.

Question 14—Recycling

Do you agree that the *Conceptual Framework* should include the rebuttable presumption described above? Why or why not?

If you disagree, what do you propose instead and why?

64. Among AOSSG members, there are mixed views as to whether recycling of OCI should be required or permitted.
65. Some members are of the view that fundamentally, there should be only one income statement, and accordingly, the *Conceptual Framework* need not include a discussion of OCI and that recycling is inappropriate. They think that, while profit or loss or OCI may be a useful disaggregation tool for application at a standards-level, it is not a principle that should be included in the *Conceptual Framework*. Yet there is a view that if OCI is retained, then all items reported in OCI should be recycled.
66. On the other hand, many other members believe that OCI should be recycled in the future and disagree with the description in paragraph 7.27 of the ED that the presumption that a reclassification will occur *could* be rebutted; instead, they believe that recycling should always occur. They believe that recycling of OCI is critically important to ensure the quality of profit or loss (some refer to the ‘all-inclusive nature’). Hence, they believe that rest of the description in paragraph 7.27 would also be inappropriate.
67. In addition, some members suggest the following alternative concept:
- (a) Consideration of the nature of an entity’s business activities conducted to determine the different measurement bases for the statement of *financial position* and the statement of *financial performance*, with OCI providing the linkage between those statements. Under this approach, the statement of financial performance could depict the return from an entity’s business activities conducted during the period, which could provide information useful in assessing the prospects for cash flows over the foreseeable future (thus, historical cost may be selected for an investment property when it is held to generate rental income). On the other hand, the statement of financial position could provide information that is useful in assessing the prospects for cash flows over the longer horizon, which partly depends on the business activities that the entity expects to conduct over the life of the asset/liability being measured (thus, the current value may be selected if the investment property is also held for capital appreciation).
 - (b) Building on the entrenched notion of operating and investing activities in IAS 7 *Statement of Cash Flows*. Under this approach, the statement of financial performance would reflect the principal revenue-producing activities for the period as well as items that are held for dealing or trading purposes, similar to operating cash flows. Conversely, OCI would reflect remeasurement gains or losses on long-term assets and other investments, similar to investing cash flows.
68. Furthermore, some members think that if the IASB decides that the *Conceptual Framework* should allow the exception of non-recycling, it should provide clear guidance on when recycling does not enhance the relevance of financial information included in the statement of profit or loss for the period.

Question 15—Effects of the proposed changes to the *Conceptual Framework*

Do you agree with the analysis in paragraphs BCE.1–BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?

69. AOSSG members do not have strong oppositions to the analysis in paragraphs BCE.1 to BCE.31 of the ED.

Question 16—Business activities

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

70. AOSSG members believe that the ‘nature of business activities conducted’ is at least a very important factor when developing accounting standards, because it would help entities to reflect economic reality in financial statements. However, there are mixed views as to whether the ED should more fully explain the implications of the nature of an entity’s business activities conducted.
71. Some members are of the view that the discussion about the nature of an entity’s business activities conducted (or an entity’s business model) should not be extended as part of the current *Conceptual Framework* project, because significant amount of additional work is necessary to explore the notion further.
72. On the other hand, some other members believe that the *Conceptual Framework* should more prominently acknowledge the notion of ‘business activities conducted’, because it would have significant effects on important parts of the concepts, namely, the ‘unit of account’, ‘measurement’ and determination of ‘profit or loss’.
73. In addition, there is a view that this notion might be stated in Chapter 1 – *The objective of general purpose financial reporting* of the *Conceptual Framework*. This is because they believe that financial information that depicts an entity’s business activities would likely be helpful for fulfilling the objective of general purpose financial reporting (such as, to help the assessment of management’s stewardship and prospects for future net cash flows to an entity).

Question 17—Long-term investment

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

74. AOSSG members generally support the IASB’s proposal not to include specific discussion of long-term investment in the *Conceptual Framework*.

Question 18—Other comments

Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).

As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.

Concept of capital and capital maintenance

75. Some members think that the concept of capital and capital maintenance should be acknowledged in other Chapters of the *Conceptual Framework*, given the implications of different concepts of capital for measurement and presentation and disclosure. If the IASB decides not to change the current approach to capital maintenance, some think that the Basis for Conclusions should explain why alternative approaches were rejected.
76. Please also see paragraph 54 of this letter.

APPENDIX II – Detailed comments from AOSSG members on how the proposals in the ED could give rise to inconsistency with the existing Standards

77. In formulating the letter, AOSSG members identified aspects of the ED that could give rise to inconsistency between the *Conceptual Framework* and the existing Standards. For specific comments, please see the following:

- (a) Interaction between paragraph 3.24 of the ED and paragraph 4(a)(iv) of IFRS 10 *Consolidated Financial Statements*

Drawing on the description in the paragraph of the ED (which states that consolidated financial statements of the parent are not intended to provide information to users of a subsidiary's financial statements), it would be appropriate for the IASB to reconsider the requirement to prepare consolidated financial statements set forth in the said paragraph in IFRS 10.

- (b) Measurement objective of 'remeasurement model' under IAS 16 and IAS 38 *Intangible Assets* and the notion of the 'current cost'

The 'current cost' based on the physical capital maintenance seems to be used in these Standards, while it has not been made clear. If this is the case, the IASB should consider if the rationale of not having discussion of the 'current cost' (see paragraph BC6.23 of the ED) remains appropriate and if the use of OCI is appropriate under the remeasurement model.

- (c) Interaction between the definitions of a liability under IAS 32 and the ED

The proposal in the ED may be inconsistent with the current definition of a liability under IAS 32. This is because the Basis for Conclusions explains that 'economic compulsion' would need to be considered in assessing whether an entity has no practical ability to avoid a future transfer (see paragraphs BC4.73 – 4.75 of the ED), while the current understanding of a liability in the context of IAS 32 excludes consideration of 'economic compulsion' (see footnote 1 of this letter.)