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Chairman
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Paris, the 14th February 2014

Mr Hans HOOGERVORST
Chairman
IASB

30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Re : DP/2013/1 A review of the conceptual Framework for financial reporting

Dear Mr Hoogervorst,

Context of the ANC's work towards preparing this response

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned Discussion Paper. These views result from the ANC's due process which has involved working on bulletins and other proactive work published with European colleagues, meetings with interested parties, including an "outreach" session in Paris with the IASB, an examination by its renewed IFRS Commission and then by its renewed Collège (Board).

Over the years, the ANC has engaged into considerable work and taken part to a number of projects related to the conceptual framework[1] either by itself or with European colleagues. It has therefore been able to discuss, develop and confirm its views over time, as IFRS themselves evolved and have been put to the test of changing economic environments.

General considerations

Although the conceptual framework is not formally endorsed by Europe, it is on the basis of its underlying principles present in the standards which existed by the turn of the century that Europe made the decision to adopt IFRS in 2002. Since then and up until 2010, there have been ongoing conceptual framework convergence discussions carried out by the IASB and the FASB, whilst at the same time standard-level projects were carried out that either departed from the framework or where constituents were being told that they were misinterpreting it.

[1] http://www.autoritecomptable.fr/sections/la_recherche_a_l_anc/travaux_dans_le_cadr/travaux_proactifs_da4365/view

Given this unstable context, it is unsurprising that this consultation has been awaited and requested for a long time by most constituents of the IASB, including the ANC, even before its last agenda consultation. This demonstrates the importance they attach to this subject and its role of “anchor”. The ANC therefore welcomes this consultation. We also welcome the IASB’s approach of taking a more holistic approach whilst focusing on financial statements as opposed to financial reporting and of speeding up the process of revising the conceptual framework. In the ANC’s view, this became all the more important in the context of the recent crises which have demonstrated that changes were urgently needed.

We note and regret however that the discussion paper proposes to fill some gaps with long and rather open discussions such as, for example, on measurement, liabilities, the distinction between debt and equity, whilst not on others such as, for example, on performance, on the capital maintenance concept, on the perspective (entity/proprietary) with which the accounts are prepared.

The discussion paper appears to confirm existing practice and concepts without any - or much - form of discussion such as, for example, the possibility to depart from it at standards’ level, the theory of efficient financial markets or the accounting for derivatives at fair value. On the other hand, the discussion paper proposes to make some major changes to reflect current thinking such as, for example, on the unbundling of assets and liabilities, the push-down of probability from recognition to measurement issues, or the recent notion of control.

All of this is done without providing constituents with much understanding of what the consequences of the proposals and options would be, which is both unsettling and perplexing.

ANC’s key views on the conceptual framework

As part of the ANC’s work on conceptual framework issues and more specifically in the context of the European Commission’s Green Paper consultation on long term financing, the ANC articulated the **key principles** it considers should be enshrined in the conceptual framework for IFRS[2].

The ANC is of the view that the representation of entities’ activities should focus on their economic performance, in order to give the **most relevant information to investors and all other users** and help them assess **stewardship** of actions taken by management. We believe that the IASB concurs with that goal, often expressed by the Trustees.

Considering the current framework and standards, as well as the proposed discussion paper and ongoing projects, we are convinced that:

(i) The principle of **prudence**, which implies an asymmetry in the accounting of assets and liabilities, should be kept in the framework from which it was removed in 2010;

(ii) The principle of **reliability** should equally be preserved contrary to the framework finalised in 2010 and to proposals in the DP;

(iii) The **performance** of entities is best portrayed considering the realisation principle based on the **business model**, taking into account additional information according to the principle of prudence;

(iv) This implies to **restore the importance of the profit or loss versus the balance sheet**, as well as **between** often misleading **short term financial valuations and long term appraisal** of entities’ achievements.

[2] http://www.autoritecomptable.fr/sections/textes_et_reponses_2/reponses_aux_questio/commission_europeenn/documents_2013/revision_du_cadre_co6802/downloadFile/file/Cadre_conceptuel_anglais.pdf?nocache=1372322877.36

In addition, we wish to draw your attention to the need to not add accounting complexity to objective economic complexity and to make clear proposals to that effect.

This **calls for changes in the conceptual framework as well as** corresponding adjustments **in individual standards and projects** as soon as possible.

Implication of changes of the conceptual framework on standards

We noted the lack of analysis of the consequences of the proposals on existing and future standards, even though the IASB indicates that it does not intend to change existing standards in the short term. It is only fair to constituents that the IASB would produce such an analysis as part of its due process, which will now be when the Exposure-draft is issued. This would not only help constituents' understanding of the IASB's thinking but also enable them to better **test** the consequences on financial statements as well as on financial stability. We therefore would expect the IASB to provide such an analysis in the next phase of its due process.

The ANC has started to work in this area. For instance, in terms of portraying an entity's business model, IAS 39 was an obvious candidate for being reviewed and IFRS 9 may still be in some aspects. There are also a number of standards which result in a fair representation of the business model and should therefore be preserved from change, such as IAS 2 (Inventories), and IAS 17 (Leases).
Of course the same work needs to be undertaken to determine whether the other key principles are appropriately applied in the standards and in the IASB's projects.

These are the aspects according to which the ANC has considered the proposals in the IASB's discussion paper and responded to the specific questions asked.

Our detailed comments as regards the questions specifically asked by the IASB are set out in the attached Appendix.

Yours sincerely,

Jérôme HAAS

Appendix : Answers to the IASB's questions

Section 1 Introduction

Question 1
Paragraphs 1.25–1.33 set out the proposed purpose and status of the Conceptual Framework. The IASB's preliminary views are that:
(a) the primary purpose of the revised Conceptual Framework is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs; and
(b) in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the Conceptual Framework. If this happens the IASB would describe the departure from the Conceptual Framework, and the reasons for that departure, in the Basis for Conclusions on that Standard.
Do you agree with these preliminary views? Why or why not?

Scope of the Discussion Paper

The ANC agrees with the focus of the discussion paper on financial statements. In the ANC's view, financial statements are indeed only a subset of financial reporting, albeit an extremely important subset. As such, they cannot serve all objectives of financial reporting : for instance, management reports serve other objectives than financial statements such as in terms of perspectives of the business. It would therefore have been useful to have had in this context a discussion about what the specific objectives of financial statements are in the context of those of financial reporting

In the ANC's view, as further developed in our answer to question 22, financial statements need to first and foremost serve the purpose of stewardship. It is in this sense that the ANC usually prefers to use the term "accounting" as opposed to the terminology of "financial reporting".

Purpose of the revised Conceptual Framework

The ANC understands from the developments in paragraphs 1.25 to 1.29 that the revised Conceptual Framework will state the following in terms of its purpose :

(a) the primary purpose is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs (paragraph 1.26)
(b) it may also assist parties other than the IASB (paragraph 1.28) :
    i. to understand and interpret existing Standards; and
    ii. to develop accounting policies when no standard or interpretation specifically applies to a particular transaction and event.

The ANC agrees with the above proposed purposes of the revised Conceptual Framework.

The limitation posed by the IASB in paragraph 1.29 in terms of the use by parties other than the IASB is however unclear : the example of OCI is mentioned, yet there is no explanation as to which other parts are concerned nor how these would be earmarked in the Conceptual Framework.
It seems to us that the IASB should further articulate its intentions, especially as we note that IAS 8 requires preparers to refer to the framework in specific circumstances.

Status of the Conceptual Framework

The ANC understands that the status proposed for the conceptual framework confirms the existing past practice whilst adding the requirement to explain any departure from the conceptual framework, which would be limited to rare cases.

There is a tension between assigning as an objective to the conceptual framework the fact that it should help the IASB apply its concepts consistently (paragraph 1.26) and the fact that individual standards trump the conceptual framework ie by allowing departures that are justified, albeit in rare cases (paragraphs 1.30-1.31).
Adding to the tension is the intention to review the conceptual framework from time to time in the light of the IASB's experience of working with it (paragraph 1.33).

Whilst this may be considered acceptable under the practicality and pragmatism angles, this does raise the issue of the pervasiveness and robustness of the conceptual framework over time and business transactions and the related uncertainties of lack of such pervasiveness and robustness for constituents. In other words, the proposal undermines the conceptual framework's role of "anchor".
For instance, at what level should the conceptual framework be focused so as to be practical enough and limit to the maximum extent possible the case for departures?

As the ANC considers that stewardship should be the primary objective, it may well be that the ANC would disagree with the IASB in those rare cases where the principles in the standards will differ from those in the framework (see hereafter).

Nonetheless, should the IASB implement its proposal to justify departure from the framework, the ANC considers **that it would be equally important and useful for the IASB to justify and explain the cases where it deems that standards are compliant with the framework**. This will help constituents understand how the framework is used, applied and interpreted by the IASB, and therefore help constituents do the same when necessary as per IAS 8 requirements.

Consequences of changes to the Framework on existing IFRS

Another source of tension is that the consequences of the proposals on existing and future standards are not clear : in some cases the IASB seems to want to bring the conceptual framework in line with existing thinking (see summary of the DP - as for instance on the right-of-use in the leases project or on the notion of control), but does not indicate what the consequences would be on existing standards. Even though the IASB has no intention of changing them in the short term**, it is only fair to constituents that the IASB would produce an analysis of the consequences of its proposals as part of its due process on the Conceptual Framework**. This would not only ease constituents' understanding of the IASB's thinking but also enable them to better test the consequences on their financial statements.

The ANC agrees with the IASB in paragraph 1.22 that any such consequences would require the IASB to go through its normal due process for adding a project to its agenda and for developing an Exposure-Draft and an amendment to that standard. In addition, the ANC considers that such process should include an analysis of the needs to make such changes.

The ANC has started to work in this area. For instance, in terms of portraying an entity's business model, IAS 39 was an obvious candidate for being reviewed and IFRS 9 may still be in some aspects. There are also a number of standards which result in a fair representation of the business model and should therefore be preserved from change, such as IAS 2 (Inventories), and IAS 17 (Leases).
Of course the same work needs to be undertaken to determine whether the other key principles are appropriately applied in the standards and in the IASB's projects.

Testing the changes to the Conceptual Framework

Finally, the IASB indicates it must focus on those changes that will provide clear and significant improvement (paragraph 1.6) without any explicit criteria to evaluate this. In this regard, **we reinsist on the need for the IASB to perform effects analyses of its proposals**, in coordination with national standard-setters.

Section 2 Elements of financial statements

Question 2
The definitions of an asset and a liability are discussed in paragraphs 2.6–2.16. The IASB proposes the following definitions:
(a) an asset is a present economic resource controlled by the entity as a result of past events.
(b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.
(c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.
Do you agree with these definitions? Why or why not? If you do not agree, what changes do you suggest, and why?

The ANC is not convinced by the need to change the definition of assets and liabilities by separating the definition from the recognition aspects as it considers the existing definitions have worked well in practice. In fact, under the current framework there was no doubt for the ANC as to the fact that the asset is the resource (and not the expected flows of economic benefits) in any of the examples provided in paragraph 2.14.

Absent any specific mention of the very specific cases which have lead the IASB to change the definitions, nor of the consequences of such change, it is very difficult to conclude on agreement or disagreement with the proposed new definitions as the following topics are, amongst others, unclear :

- how far do these changes of definitions increase the amount (including unbundling and unit of account issues) and nature of assets and liabilities that would be recognised in the balance sheet ?

- is replacing "expect to" by "capable of" changing a sentence which the IASB argues some misinterpret (paragraph 2.13a) with another sentence that could also be misinterpreted ?

Given the above and the ANC's position on the need to retain probability thresholds in terms of recognition as expressed in our answer to question 3, the ANC does not disagree with the definitions proposed in themselves as long as these definitions, in combination with recognition criteria would not bring any major change to assets and liabilities being recognised.

Question 3

Whether uncertainty should play any role in the definitions of an asset and a liability, and in the recognition criteria for assets and liabilities, is discussed in paragraphs 2.17–2.36. The IASB's preliminary views are that:

(a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is 'expected'. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.

(b) the Conceptual Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.

(c) the recognition criteria should not retain the existing reference to probability.

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

Whilst the ANC does not disagree with uncertainty thresholds not playing a role in the definition of assets and liabilities, it very strongly disagrees with moving uncertainty thresholds from the conceptual framework recognition criteria to individual standards.

We therefore support the position set out in paragraph 2.33. Arguments for this position are described in our European bulletins on "Uncertainty"[3] and "Reliability of financial information"[4].

In this regard, the recognition of assets and liabilities for *all* possible inflows or outflows no matter how remote cannot provide the most useful information for users of financial statements as this causes a number of issues in terms of judgment as to uncertainties, reliability and relevance. Hence some sort of probability filter is needed at the recognition level.

In addition, the ANC considers that removing uncertainty thresholds from recognition criteria in the framework to IFRS standards puts at risk the preservation of consistency amongst standards and would undermine the conceptual framework. In saying this, the ANC is not implying that the same thresholds should apply to assets and liabilities (some form of asymmetry is warranted due to the prudence principle, see our answer to question 22) but that there is need for consistency amongst assets and amongst liabilities.

We consider that a number of aspects come into play in terms of recognition and that the IASB should look at those and articulate them in a more holistic manner. These include whether the transaction is executory, whether (un)conditionality plays a role as well as what type of (un)conditionality, how the unit of account comes into play and what information is relevant.

3 http://www.autoritecomptable.fr/sections/la_recherche_a_l_anc/travaux_dans_le_cadr/bulletin_uncertainty/downloadFile/file/Bulletin_Uncertainty.pdf?nocache=1365672982.87

4 http://www.autoritecomptable.fr/sections/la_recherche_a_l_anc/travaux_dans_le_cadr/bulletin_reliability/downloadFile/file/Bulletin_Reliability_of_financial_information.pdf?nocache=1365672939.12

Question 4

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

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

The ANC notes that the IASB does not propose any change to the definitions of income and expenses, which will therefore remain defined by reference to changes in assets and liabilities. We also note that the IASB seems to infer that the distinction between profit or loss and OCI is merely a presentation issue (paragraph 2.49).

We very strongly regret that the Board decided not to engage in a discussion on what performance in the profit or loss account represents. Such a discussion would have justified and helped characterise income and expenses on the basis of what they are supposed to represent within the context of a specific accounting period.

Regarding the existing definition of income and expenses, we would like to point out to the inclusion of the notion of inflows and outflows in the definition which, in our view, refers to the notion of cash generation.

We also think that, in the existing definitions, no prominence is given to changes to assets and liabilities as opposed to inflows and outflows.

To illustrate this, in practice and depending on the various business models, the profit of productive activities is measured mainly through the generation of cash-flow and adjusted for depletion (depreciation, impairment) if necessary) whereas, in trading or in certain financial activities, profit also includes a significant portion of assets/liabilities enhancements/depletions.

We also understand that most users primarily use the profit and loss account to project future cash-flows, albeit with the caveat that it may be less prominent for financial institutions. It is however rare to encounter capital providers who predict future cash-flows primarily based on balance sheet information.

Unfortunately, we are concerned that effectively more importance has been granted to the part of the definition of income and expenses which refers to changes in assets and liabilities.

This major shift is all the more important since we have noted that, by first focusing on assets and liabilities in a number of projects (revenue recognition, leases, IFRS 3 revised, IFRIC 21, project on IAS 37, ….), this has added to complexity. For example this has resulted in accounting for assets and liabilities which are further away from the cash-flows they will ultimately end up as (either in recognition or measurement terms). This, when it has been deemed that the resulting impact on profit and loss is unsatisfactory, has led to compromising with the creation of OCI items, which in this Discussion Paper the IASB is trying to redefine as bridging items (as per paragraph 8.55), or to the financial statements not portraying the entity's business model.

In addition, we note that companies communicate in other types of financial reports (as well as under IFRS 8) using non-IFRS measures.

All of this should have, in our view, led the IASB to question their approach.

In our view, therefore, a clear and distinct definition of the fundamental elements of the P&L / income statement is required in order to be in the position of faithfully representing the performance of the entity's business required as key information by users.

As noted in the Discussion Paper, the economic substance of the performance is better reflected through recognition and measurement approaches that are driven by value creation and cash flows generation resulting from the application of business models to the entity's activities (see also our answer to question 23). These approaches should also identify the most relevant units of accounts to which business models apply. Therefore, definition of elements of the P&L / income statement should be consistent with both notions. Finally, as the terms "profit" and "loss" may be understood too restrictively in this respect, one should use the terms "income" and "expense" as fundamental elements of the income statement, assuming that they do not necessarily include items currently designed as OCI.

In summary, this question of the DP on income and cash-flows statements involves numerous questions that seem to be only addressed through a simplistic shortcut, i.e. the balance-sheet approach and comprehensive income. In the existing framework -and in the entities' practice-, the major driver is the cash-flow statement (the « story » of the film), although we note that cash flow statements are not very relevant for financial institutions and insurance companies. It is the only objective statement as cash is ultimately the only objective item. The income statement is a disaggregation of the operating flows to assess if they consist in pay back of the capital employed (capital maintenance adjustments) or in a return on that capital (net income). The balance sheet is finally only a conventional photograph to measure the outstanding capital employed and is therefore a subset of the two others. Computing the income by difference of two balance sheets is a reversal of the concepts. However, in the same way as the difference between two photographs of a film does not tell the story of the film, the changes of the balance sheet do not tell the story of the value creation.

At a time when the IASB reaffirms that the objective of accounting is to help users in assessing future cash-flows, the role of cash generation and capital maintenance in the determination of profit should not only be maintained in the framework but also reinstated in practice in standard setting.

Under the proviso that this effectively happens, the ANC supports the IASB in that "no primary financial statement has primacy over the other primary statements and they should be looked at as a group" (paragraph 7.31).

Arguments supporting the ANC views on the above are also provided in our European Bulletin "The asset/liability approach"[5].

[5] http://www.autoritecomptable.fr/sections/la_recherche_a_l_anc/actualites/efr_cf_bulletin_asse/downloadFile/file/EFR_CF_Bulletin_asset_liab_sept.pdf?nocache=1379079603.84

Section 3 Additional guidance to support the asset and liability definitions

Question 5
Constructive obligations are discussed in paragraphs 3.39–3.62. The discussion considers the possibility of narrowing the definition of a liability to include only obligations that are enforceable by legal or equivalent means. However, the IASB tentatively favours retaining the existing definition, which encompasses both legal and constructive obligations—and adding more guidance to help distinguish constructive obligations from economic compulsion. The guidance would clarify the matters listed in paragraph 3.50.
Do you agree with this preliminary view? Why or why not?

As mentioned previously, the ANC considers the existing definitions and criteria as regards liabilities, including that of constructive obligations, to be working well.

We obviously are aware of the issues mentioned in paragraphs 3.44 to 3.47. We could add that similar issues occur within the context of IFRIC 21. However, in our view :

- On the restructuring issue (paragraph 3.46a), it is not right to imply that the company does not have an obligation given the criteria included in the standard to determine its existence. Of course, one may argue that the entity could, by its actions, not implement the restructuring plan. Beyond the fact that this in practice is rarely realistic and therefore that the company is economically compelled to do it, would it be relevant to not account for it ? In this regard, we disagreed with the IASB's proposals on the revision of IAS 37 (see paragraphs 3.53-3.54).
- On IFRIC 6 (paragraph 3.45), and therefore IFRIC 21, as well as on the IAS 34 example of contingent rentals (paragraph 3.46b) the question is also about the role of the principle of going concern has to play in drawing up financial statements in terms of relevance.

We understand from paragraphs 3.50-3.51 that the IASB would propose to include existing guidance from IAS 37 on constructive obligations within the Framework. We agree with this.

However, we understand from paragraph 3.52 that the IASB would also propose to add guidance on economic compulsion to state that economic compulsion does not in itself amount to a constructive obligation. Without disagreeing with this, we consider that the role of economic compulsion and going concern on liabilities, and more generally within IFRS, needs to be more thoroughly debated than what is proposed in the discussion paper.

The ANC considers that limiting the definition of a liability to obligations that another party could enforce against the entity to be too restrictive. We are not convinced by the argumentation provided in paragraph 3.60 and support the onus put on the relevance of the information provided as argued in paragraph 3.61a.

Question 6

The meaning of 'present' in the definition of a liability is discussed in paragraphs 3.63–3.97. A present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity's future actions. Three different views on which the IASB could develop guidance for the Conceptual Framework are put forward:

(a) View 1: a present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions.

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

(c) View 3: a present obligation must have arisen from past events, but may be conditional on the entity's future actions.

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

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

As previously mentioned, the ANC considers that existing definition and recognition criteria have worked well. Therefore, **our analysis of the three proposed views lead us to favour View 2 as it appears closer to existing practice which includes obligations that are highly probable to occur (which is however different from the "more likely than not" existing IAS 37 approach)** as compared to View 3 which seems to imply that a large range of possibles would be recognised. View 1 appears too restrictive (as argued in question 5 on restructuring plans) because of having to wait for all conditions to be fulfilled even when the probability is very high. This in our view would reduce the relevance of the financial statements.

However, the ANC considers that it is difficult to conclude as the consequences of either view between view 2 and view 3 have not been provided for all types of obligations (not only within the context of IAS 37 but also for instance in the case of financial liabilities, income taxes, employee defined benefits, share-based payments). It would be fair to constituents for the IASB to articulate these views around items covered by existing standards.

Question 7

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

Role of economic compulsion and going concern

As noted in our answer to question 5, we consider that economic compulsion needs to be discussed within the context of the recognition of obligations, and not only in the context of the distinction between debt and equity. The role of going concern should also be discussed.

We do not disagree with the fact that economic compulsion does not in itself amount to a constructive obligation. However, some features of constructive obligations may well interact with economic compulsion and going concern and vice-versa. In the end, relevant information is what is needed. The conceptual framework should include a larger discussion on these topics, so that standard-setting and interpretation activities better consider these aspects.

Assets

The ANC regrets that no question was asked on the discussion on the notion of an economic resource which may comprise various different rights (paragraph 3.8). We regret this even more because this appears to simply confirm proposed thinking on the accounting for lease contracts. In this respect we note that IAS 17 currently already refers to the right of use but obviously proposes an accounting treatment which we consider more aligned to the substance of the transaction and to entities' business model. The evolution proposed, in our view, evidence of the focus on assets and liabilities and the induced complexity we mention in our response to question 4.

In the discussion in paragraphs 3.8 to 3.15, the consequences of this "unbundling" are unclear. For instance, how far in the breakdown of existing assets does the IASB intend to go ? We consider that this topic requires more informed discussion about potential consequences on existing assets.

Beyond the obvious unit of account issue in the sense of "unbundling" in the example of leases, we have referred to the substance of the transaction. This notion under current IAS 17 is based on the assessment of risks and rewards which was at the heart of the control notion. The IASB however proposes an evolution of the control notion that is aligned with the thinking they have developed in the context of consolidation and of revenue recognition where risks and rewards are relegated as an indicator of control. As mentioned in a number of our previous responses to the IASB on the topic, we do not consider the proposed notion of control to bring more relevant information than that of risks and rewards. Please see also our answer to question 9.

Section 4 Recognition and derecognition

Question 8

Paragraphs 4.1–4.27 discuss recognition criteria. In the IASB's preliminary view, an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular Standard that an entity need not, or should not, recognise an asset or a liability because:

(a) recognising the asset (or the liability) would provide users of financial statements with information that is not relevant, or is not sufficiently relevant to justify the cost; or

(b) no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed.

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

As already mentioned, the ANC disagrees with not including a probability criterion in the recognition principles set out in the Conceptual Framework. We refer to the explanations provided in our answer to question 3.

We consider that it is important that information that is included in the financial statements is relevant. We therefore agree with the IASB in paragraphs 4.9 and 4.10 that it can decide that an entity *should not* recognise an asset or a liability because recognising it would provide users of financial statements with information that is not relevant, or is not sufficiently relevant to justify the cost. We are concerned, in terms of consistency and comparability that the IASB could propose that an entity *need not* (in the sense that it does not have to but could) recognise an asset or a liability because it would not provide relevant information as this would undermine the essence of the notion of relevance.

Similarly, we agree with the IASB that it can decide than an entity should not (and not that it need not) recognise an asset or a liability because no measure of such element would result in a faithful representation of both the element and of its changes, even if all necessary descriptions and explanations are disclosed.
In this regard, we agree that, provided that the focus is not on assets and liabilities as opposed to performance, the IASB should look at all aspects of a transaction, including the disclosures to be provided, even in the absence of an asset or a liability (paragraph 4.19). In addition, we are of the view that disclosures should not be provided to compensate for inadequacies in recognition, measurement and presentation requirements.

In our European Bulletins on "Prudence[6]" and "Reliability in financial reporting", as well as in our June 2013 response to the European Commission's Green Paper on long term investment[7], we make the case for reinstating prudence and reliability as they were in the pre-2010 Conceptual Framework. As regards reliability, this would help resolve the IASB's issue with not being able to include reliability in the recognition criteria because the Conceptual Framework no longer defines it (see paragraph 4.16).

[6] http://www.autoritecomptable.fr/sections/la_recherche_a_l_anc/travaux_dans_le_cadr/bulletin_prudence/downloadFile/file/Bulletin_Prudence.pdf?nocache=1365672848.83

[7] http://www.autoritecomptable.fr/sections/textes_et_reponses_2/reponses_aux_questio/commission_europeenn/documents_2013/revision_du_cadre_co6802/downloadFile/file/Cadre_conceptuel_anglais.pdf?nocache=1372322877.36

Question 9

In the IASB's preliminary view, as set out in paragraphs 4.28–4.51, an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. (This is the control approach described in paragraph 4.36(a)). However, if the entity retains a component of an asset or a liability, the IASB should determine when developing or revising particular Standards how the entity would best portray the changes that resulted from the transaction. Possible approaches include:

(a) enhanced disclosure;

(b) presenting any rights or obligations retained on a line item different from the line item that was used for the original rights or obligations, to highlight the greater concentration of risk; or

(c) continuing to recognise the original asset or liability and treating the proceeds received or paid for the transfer as a loan received or granted.

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

As a general principle, we consider that derecognition criteria should be symmetrical to the recognition criteria. The latter, as previously mentioned, should be based on the risks and rewards notion and not on the recently adopted control notion **: the risks and rewards approach enables, in our view, a more faithful representation of the substance of transactions**, in that it is consistent with the way business is conducted.

We note with interest that in paragraph 4.36 the IASB refers to the difficulty in cases where the entity retains a component that exposes the entity disproportionately to the remaining *risks and rewards* (emphasis added) arising from the previously recognised asset or liability. We understand this to mean that in the case of derecognition, risks and rewards seem to trump the recently defined control notion. Therefore, if risks and rewards were, as previously was the case, reinstated as the basis for the notion of control and therefore for recognition, the symmetry would be more obvious and the principle should be included in the Framework. The issues would thus center more on the unit of account ie the component(s) that is(are) retained.

We therefore strongly disagree with the arguments provided in paragraph 4.37.

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

Question 10

The definition of equity, the measurement and presentation of different classes of equity, and how to distinguish liabilities from equity instruments are discussed in paragraphs 5.1–5.59. In the IASB's preliminary view:

(a) the Conceptual Framework should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.

(b) the Conceptual Framework should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. Two consequences of this are:

- *(i) obligations to issue equity instruments are not liabilities; and*
- *(ii) obligations that will arise only on liquidation of the reporting entity are not liabilities (see paragraph 3.89(a)).*

(c) an entity should:

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

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

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

We agree that the Conceptual Framework should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.

We regret that the IASB has not considered including any consideration in this discussion paper as to what view is taken as regards the reporting entity : is it the entity view or the proprietary view or something else ? We consider that, absent the IASB's intentions in this regard, it is difficult to conclude on the approaches proposed for distinguishing debt from equity, especially in the context of all the issues which have arisen (including that of NCI puts) and been discussed in isolation in terms of remediation (whether such remediation has occurred or not) in relation to existing standards. It would be useful to take a more holistic approach to all these issues in order to be able to define principles that would go in the Framework.

We agree that, as financial statements are normally prepared on the assumption that an entity is a going concern, obligations that will arise only on liquidation of the reporting entity are not liabilities (paragraph 3.89a).

Regarding the proposals on measuring each class of equity claim, we consider there is a tension between defining equity as a residual and then trying to break the residual further down (beyond profit and loss and other comprehensive income) with the primary equity claim being the ultimate residual. The objectives of the proposal are unclear and the notion of "wealth" transfers too subjective, especially since the notion of wealth is undefined. We do not think that the information provided would be relevant. We consider in addition that such proposals would contradict OB 7 which states that "general purpose financial statements are not designed to show the value of a reporting entity".

We consider it is important for entities which have issued no equity instruments to portray the residual between assets and liabilities as equity. We encourage the IASB to look at this issue further from a Conceptual Framework perspective in order to find a general principle before deciding to refer the issue to individual standards.

Section 6 Measurement

Question 11

How the objective of financial reporting and the qualitative characteristics of useful financial information affect measurement is discussed in paragraphs 6.6–6.35. The IASB's preliminary views are that:

(a) the objective of measurement is to contribute to the faithful representation of relevant information about:
- *(i) the resources of the entity, claims against the entity and changes in resources and claims; and*
- *(ii) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.*

(b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;

(c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI;

(d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:
- *(i) for a particular asset should depend on how that asset contributes to future cash flows; and*
- *(ii) for a particular liability should depend on how the entity will settle or fulfil that liability.*

(e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained; and

(f) the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.

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

Measurement (and the related accounting policy choice) is probably the most obvious place where the business model should play a role, but it is not the only one (see our answer to question 23). The relevance of a particular measurement depends in our view on the way cash is generated and on the value creation, as explicited in our European Research Paper on the Business Model[8]. As a basis for this, and as discussed in our answer to question 22, we consider that the objective of financial statements should be to allow all users (and not only investors, creditors and other lenders) of financial statements to assess the stewardship of management.

This implies a single measurement basis cannot provide the most relevant information for users of financial statements. **We therefore welcome the fact that the IASB proposes that "a single measurement basis may not provide the most relevant information for users of financial statements"**, even though the way it is formulated appears to be very timid.
We also welcome the IASB proposing to expand on these aspects as we believe the Conceptual Framework should provide guidance as to what measurement bases the individual standards should require in their specific contexts.

We do insist again on the need for the ensuing measurement of elements to be reliable.

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8 http://www.autoritecomptable.fr/sections/nos_publications/nos_publications_fic/research_paper_busin/downloadFile/file/RESEARCH_PAPER_BUSINESSMODEL_2013_12_18.pdf?nocache=1387363123.8

We have concerns with the fact that the risk of increasing the number of assets and liabilities that could be recognised on the balance sheet even though their probability is remote could imply that **expected value methods would become predominant** and that such exercise **would add undue complexity and impair the relevance of financial statements**.

As a matter of principle, we consider that if the business model were appropriately taken into account, there would be no need for having different measurement bases for the statement of financial position and the statement(s) of profit or loss and OCI. We consider such a situation to be unhelpful to users and confusing. It seems only to help standard setters compromise because they are pursuing different objectives at the same time or putting accounting constraints on some assets and liabilities which therefore either constrain other assets and liabilities or lead to accounting mismatches. We therefore would wish the IASB to articulate what financial statements are supposed to portray in the context of financial reporting including other forms of report.

We regret with the IASB confirming in paragraph 6.19, without any further discussion, that current market prices are likely to be the most relevant measure for derivatives. We consider that some derivative transactions (such as forward exchange contracts) would be better represented if they were to follow the accounting treatment of the hedged instrument. This could potentially reduce complexity in a very significant manner.

Given the recent financial crisis which demonstrated that financial markets are all but efficient, we consider that the IASB should reconsider and rediscuss the market efficiency theory which is at the basis of fair value measurement in order to more appropriately calibrate when it is relevant and appropriate to require such measurement.

We are not convinced with the discussion on the limitation of the number of measurements used in paragraph 6.23. If the measurement portrays the way the asset or liability generate cash flows, ie according to the entity's business model (as per our assumed meaning of this term in our Research Paper), the measurement should adapt to any evolution of the entity's business model, which we consider would be infrequent but would be objectively identifiable, to avoid earnings management. In addition**, if subsequent measurement should be the same as initial measurement, arguably this would imply that in almost all cases, assets and liabilities would be measured at fair value. We strongly disagree with this.** Therefore, there should not be a limitation proposing that subsequent measurement should be the same as initial measurement as proposed in paragraph 6.24.

As for the cost/benefit constraint, we consider it to be a valid constraint for all aspects of financial reporting.

We also refer to arguments we have set out in our response to the CICA's discussion on measurement[9].

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9 http://www.autoritecomptable.fr/sections/textes_et_reponses_2/reponses_aux_questio/autres_organismes/documents_2013/cica_reponse_anc_cad/downloadFile/file/Lettre_ANC_Toward_a_measurement_framework.pdf?nocache=1359036545.17

Question 12

The IASB’s preliminary views set out in Question 11 have implications for the subsequent measurement of assets, as discussed in paragraphs 6.73–6.96. The IASB’s preliminary views are that:

(a) if assets contribute indirectly to future cash flows through use or are used in combination with other assets to generate cash flows, cost-based measurements normally provide information that is more relevant and understandable than current market prices.

(b) if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant.

(c) if financial assets have insignificant variability in contractual cash flows, and are held for collection, a cost-based measurement is likely to provide relevant information.

(d) if an entity charges for the use of assets, the relevance of a particular measure of those assets will depend on the significance of the individual asset to the entity.

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

We are concerned that the above is an over-simplification, especially in the context of the ANC's general views on financial statements as described in our answer to question 22.

We agree with a).

As regards b), we disagree with the fact that a current exit price is likely to be relevant for all inventory, in particular for inventory which is not trading inventory (in the sense of inventory being acquired and sold in the short term). As regards trading inventory, we agree as long as the current exit price is based on observable prices or on reliable information that is readily available. In this regard we refer to the reservations we have already expressed, more specifically in the context of the third level in the fair value measurement hierarchy and especially in contexts of illiquid markets. Indeed, we do not agree that an uncertain measurement becomes faithful just by adding loads of disclosure to compensate for the lack of reliable input.

In c), we disagree with the constraint of the insignificant variability of cash flows proposed, which seems to just enshrine in the Conceptual Framework this notion developed for IFRS 9 purposes. In such cases, if deemed necessary, current market values could be provided as supplementary information in the notes.

We are not sure to understand the proposal in d) in terms of linking the measure of assets to the significance of the individual asset to the entity. Surely that cannot be a principle ?

Question 13

The implications of the IASB's preliminary views for the subsequent measurement of liabilities are discussed in paragraphs 6.97–6.109. The IASB's preliminary views are that:

(a) cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms.

(b) a cost-based measurement will normally provide the most relevant information about:

  (i) liabilities that will be settled according to their terms; and

  (ii) contractual obligations for services (performance obligations).

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

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

We agree with the fact that the way a liability will be settled is important in identifying the appropriate measurement for the liability.

We are concerned with the fact that the preliminary views expressed above do not take into account unit of account issues (which are important for instance in insurance contracts and warranty provisions to explain the difference between measurement per individual liability and measurement based on a portfolio of liabilities). We are also concerned with the fact that the preliminary views do not discuss "best estimate" versus "most likely" or other types of measurement such as expected value that currently exist within IFRS.

We consider that the focus should be on the way the liability will be settled in terms of whether the entity will be performing or on whether a third party will perform. The notion of stated terms would come in after. For instance if a third party is going to decontaminate a site, the liability will be based on the stated terms of the contract/estimate provided by the third party.

We are concerned with including own credit risk in the measurement of liabilities, in view of the counter intuitive information provided, which a parking in OCI does not resolve.

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

See our answer to question 12. In the context of the business model, we see no conceptual reason as to why there would be a difference between financial instruments and other assets and liabilities, nor for any constraints. We consider that the IASB has not sufficiently articulated the rationale for this and should do so.
As mentioned in our answer to questions 11 and 12, this applies in particular to derivatives but equally to instruments with variable cash flows.

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

We regret the fact that there is no mention of cross-cutting issues which are currently the cause of inconsistencies which have never really been discussed at a conceptual level. Amongst these cross-cutting issues are the discount rate as well as the taking into account or not of transaction costs.

In the case of discount rates, this will be all the more important as the use of present value calculations seems to be increasing.

As previously mentioned in our answers to the previous questions, we regret that some of the proposals appear to be constrained by the need to enshrine existing practices in the Conceptual Framework.

We also regret the absence of any discussion on "best estimate", "most likely" versus expected values.

In this respect, the proposals appear to be unclear as to potential consequences on existing standards and we are not convinced that the guidance proposed is robust enough to ensure consistency in the measurement bases required at individual standards level.

Section 7 Presentation and disclosure

Question 16

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

- *(a) the primary purpose of the Conceptual Framework, which is to assist the IASB in developing and revising Standards (see Section 1); and*
- *(b) other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8), including:*
  - *(i) a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project;*
  - *(ii) amendments to IAS 1; and*
  - *(iii) additional guidance or education material on materiality.*

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

- *(a) presentation in the primary financial statements, including:*
  - *(i) what the primary financial statements are;*
  - *(ii) the objective of primary financial statements;*
  - *(iii) classification and aggregation;*
  - *(iv) offsetting; and*
  - *(v) the relationship between primary financial statements.*
- *(b) disclosure in the notes to the financial statements, including:*
  - *(i) the objective of the notes to the financial statements; and*
  - *(ii) the scope of the notes to the financial statements, including the types of information and disclosures that are relevant to meet the objective of the notes to the financial statements, forward-looking information and comparative information.*

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

Presentation in the primary financial statements

We agree that it is necessary and fundamental for the Conceptual Framework to spell out the objectives of primary financial statements and the articulation of these statements between one another, including the fact that no primary financial statement should have primacy over another as they should be considered as a package. However, consistent with our position expressed in our answer to question 22, we consider that the package of financial statements should primarily reflect the stewardship of management and regret that the IASB has decided not to discuss this nor what performance of the entity is.

We however regret that this is currently perceived as being merely part of the discussion on presentation of the primary financial statements.

In addition, as mentioned in our answer to question 4, we note with regret that this has not been applied in practice recently, for example in the recent projects on revenue recognition as well as on leases, amongst other projects.

As regards principles pertaining to classification, aggregation and offsetting, we consider that any articulation of these as part of the Conceptual Framework should be at a level which takes into account the business model as well as the principles of relevance, understandability, reliability and comparability. Operationalising these principles should be left to the level of individual standards, including more general standards such as IAS 1 and IAS 7.

Disclosure in the notes to financial statements

We welcome the IASB's willingness to tackle these aspects as part of the framework as we note that disclosures in the notes have become quite out of hand. The ANC has been quite actively working on these aspects in a European context but also at a national level. We do however think that it would have been helpful to have had a discussion of and agreement on what it is that financial statements (ie including the notes) are supposed to portray within the broader context of financial reporting so that information is not unduly duplicated between different forms of financial reports.

We agree with the content of guidance to be included in the Conceptual Framework as the proposals are consistent with the work we have carried out and the proposals we have made in our Discussion Paper "Towards a Disclosure Framework"[10] and especially the following 14 main principles we had identified :

General objective of a Disclosure Framework

To ensure that all and only relevant information is disclosed in an appropriate manner, so that detailed information does not obscure relevant information in the notes to the financial statements.

Purpose and content of the notes

1. The purpose of the notes is to provide a relevant description of the items presented in the primary financial statements and of unrecognised arrangements, claims against and rights of the entity that exist at the reporting date.

2. Consequently:
    a. The disclosures in the notes should provide information which amplifies and explains the primary financial statements;
    b. The notes should focus on past transactions and other events existing at the reporting date; information about the future that is unrelated to those past transactions and other events, is not provided in the notes; and
    c. Information in the notes should be entity-specific.

3. As a complement to reported numbers showing the entity's financial situation and performance in the balance sheet and profit and loss, notes should provide information such as, but not limited to, (a) assumptions and judgments that are built into the reported numbers of items in the balance sheet and profit and loss; (b) information on risks that may affect these reported numbers; and (c) alternative measurements where this information would be relevant.

4. It is necessary to consider the implications of recognition and measurement attributes on the disclosure requirements so that, ultimately, the usefulness of information is assessed as a whole. In particular, the more uncertainty affects the amounts in the primary statements, the more disclosures are usually needed.

10 http://www.autoritecomptable.fr/sections/nos_publications/nos_publications_fic/disclosure_efrag_120/downloadFile/file/disclosure_efrag_12072012.pdf?nocache=1342094050.33

Setting the disclosure requirements

5. Disclosure needs to be an objective distinct from other objectives, specifically from recognition, measurement and presentation.

6. Disclosure requirements should be developed and justified with the same level of depth and scrutiny as recognition, measurement and presentation requirements.

7. Disclosure requirements should be set in a consistent manner across the whole set of accounting standards, including the level of granularity.

8. Disclosure requirements should be principle-based and detailed rules should be avoided.

9. Disclosure requirements should achieve proportionality to the entity's users' needs, and meet a reasonable cost-benefit trade-off in all circumstances. Alternative disclosure regimes may have to be put in place to achieve proportionality.

10. Disclosure requirements should not be used to compensate for inadequacies in recognition, measurement and presentation requirements.

11. Disclosure requirements should be set as to avoid any possible overlap within notes and reviewed over time to eliminate requirements that are no longer relevant.

Applying the requirements

12. Care should be taken in applying the materiality principle in practice, bearing in mind that disclosing immaterial information (and information on situations that do not apply in practice to the reporting entity) reduces the relevance and the understandability of disclosures.

Communicating information

13. Disclosure requirements should be applied with a view to communicating information to users rather than a compliance exercise.

Succeeding in practice

14. Preparers, auditors and regulators, each in their specific role, have a shared interest in fostering the improvement of disclosures, through the application of all principles above.

Financial statements in an electronic format

Whilst we understand the benefits of providing data in the form of electronic formats, we express some concerns in this regard.

There is a risk of over constraining standard-setting and the application of standards to fit the format and the language of the tool as well as to promote comparability, to the detriment of understandability and relevance, which we understand the IASB wants to promote. We would therefore advise that the IASB be extremely cautious in this regard and are concerned with the content of paragraph 7.52b which seems in contradiction to some extent to the flexibility granted for instance in IAS 1.

In addition, we do not think it is the IASB's role to promote one system over others, especially as the decisions regarding the use of such system is not in their hands.

Question 17

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

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

We agree with the IASB's preliminary view that the concept of materiality is clearly and sufficiently described in the existing Conceptual Framework. Accordingly, we consider that there is no need to change.

Question 18

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

Do you agree that communication principles should be part of the Conceptual Framework?

Why or why not?

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

We agree with these communication principles. See our answer to question 16.

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

We refer to our answer to question 4 where we express our regrets that the IASB has shied away from defining performance positively.

Question 19
The IASB's preliminary view that the Conceptual Framework should require a total or subtotal for profit or loss is discussed in paragraphs 8.19–8.22.
Do you agree? Why or why not?
If you do not agree do you think that the IASB should still be able to require a total or subtotal profit or loss when developing or amending Standards?

The ANC has always expressed the position that profit or loss should be a total and not a subtotal as it reflects the entity's performance and is the primary number investors look at. In addition, in our view, other comprehensive income items do not have the same nature nor the same relevance for users of financial statements. We therefore consider that these items should not be aggregated with profit or loss.

We are disappointed with the fact that this is at least the third time in the last 8 to 9 years that the IASB asks this question.

Question 20
The IASB's preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognised in OCI to be recognised subsequently in profit or loss, ie recycled, is discussed in paragraphs 8.23–8.26.
Do you agree? Why or why not? If you agree, do you think that all items of income and expense presented in OCI should be recycled into profit or loss? Why or why not?
If you do not agree, how would you address cash flow hedge accounting?

If the need for OCI is confirmed (see our answer to question 22), we are of the view that all cash flows should ultimately be reflected in profit or loss and therefore that items recognised in OCI should be recycled by principle when this is reflective of the entity's performance. This principle should be stated in the Conceptual Framework and the individual standards concerned should operationalise the principle.

Question 21
In this Discussion Paper, two approaches are explored that describe which items could be included in OCI: a narrow approach (Approach 2A described in paragraphs 8.40–8.78) and a broad approach (Approach 2B described in paragraphs 8.79–8.94).
Which of these approaches do you support, and why?
If you support a different approach, please describe that approach and explain why you believe it is preferable to the approaches described in this Discussion Paper.

The ANC regrets that there is no attempt by the IASB to define what performance is and that the approach considered of defining OCI is very narrow.

It seems that the approach taken is to fit in existing OCI items to the definitions instead of looking at fundamental principles, which may have caused to question past decision (see our answer to question 11).

In addition, existing OCI basically means that there is a difference between the balance-sheet and the profit or loss either in terms of recognition of items (or timing thereof) or in terms of measurement. The ANC wonders how far the IASB would want to or could go : in the absence of a discussion as to what the individual primary statements are supposed to represent and of what financial statements are supposed to portray as a whole, to the extreme, this could mean that the balance sheet is fully accounted for at fair value whilst the profit or loss is based on representation of the business model. We would be in complete disagreement with such an approach and we consider that the Conceptual Framework should not allow for an extended use of OCI.

Section 9 Other issues

Question 22
Chapters 1 and 3 of the existing Conceptual Framework Paragraphs 9.2–9.22 address the chapters of the existing Conceptual Framework that were published in 2010 and how those chapters treat the concepts of stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the Conceptual Framework highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters.
Do you agree with this approach? Please explain your reasons.
If you believe that the IASB should consider changes to those chapters (including how those chapters treat the concepts of stewardship, reliability and prudence), please explain those changes and the reasons for them, and please explain as precisely as possible how they would affect the rest of the Conceptual Framework.

ANC's views on the Conceptual Framework, especially on its objective and qualitative characteristics

The ANC provides hereafter its high level views on the conceptual framework for IFRS and IFRS financial statements. These are the aspects according to which the ANC has considered the proposals in the discussion paper and responded to the specific questions of the DP.

The conceptual framework should provide the core principles and values that the IASB should conform to when setting standards and that constituents should apply when drawing up financial statements, auditing them, enforcing them. It therefore cannot deal with all topics in detail, such details being best dealt with within individual standards.

The subject matter of financial reporting and of the financial statements in particular is the entity as an economic actor which engages in activities with a multiplicity of other economic actors. The nature of its interactions varies depending on the economic actor. All these actors are therefore interested in the entity and need information about it. As demonstrated in the recent crises, the balance and inter link between all these actors is very delicate. Financial statements should serve all and not focus on a few at the risk of creating an imbalance. The ANC sees no need or reason to oppose stakeholders against one another.

Entities engage in activities which ultimately generate cash inflows and cash outflows. Cash flows are "tangible" and therefore the most objective item encountered within financial statements. Financial statements are established to provide information on a regular basis to the entities stakeholders. There is therefore a need for conventions to represent that information over a truncated period and make it understandable to the stakeholders. The conceptual framework and its derived IFRS standards are such a convention.

General purpose financial statements therefore describe, over a given period, what the entity has done, its performance, according to its business model (or, if relevant, to its various business models) in the perspective of going concern, ie of continuing its activities. The business model is the way the entity generates its cash flows and creates value.

In assigning this simple objective to financial statements, ie placing them within the context of the entity's business model(s), a number of debates would be reconciled and/or be helpful for :

- The traditional opposition between decision-usefulness and stewardship
- Long term and short term perspectives
- The realised versus non realised debate
- The debate about prudence versus caution
- The measurement to be applied and therefore the balance-sheet versus profit and loss debate
- The unit of account
- Presentation versus disclosure

As a matter of course, financial statements need to be understandable to reasonably economically educated stakeholders, which implies that :

- complexity should be represented in as much as it reflects the complexity of the business and financial statements should not add complexity to that by, for instance, portraying the business differently from the way it is run
- financial statements need to be based on reliable and understandable measures as well as avoid "noise" that would detract their readers from the entity's fundamentals (for instance by recording items from which it is less than probable that cash flows will be generated or incurred).

Consequences of the ANC's views on Chapters 1 and 3 of the Conceptual Framework

The ANC thus disagrees with overall objective of financial reporting as currently stated in the Conceptual Framework : stewardship should be the primary objective.
Therefore, the ANC considers that some aspects of the chapters on objectives and qualitative characteristics warrant reopening on topics such as :

- **the users of financial statements,**
- **stewardship (see arguments provided in our Bulletin on Accountability[11]),**
- **prudence (see arguments provided in the related Bulletin[12]),**
- **reliability (see arguments provided in the related Bulletin[13]).**

Question 23 *Business model* *The business model concept is discussed in paragraphs 9.23–9.34. This Discussion Paper does not define the business model concept. However, the IASB's preliminary view is that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities.* *Do you think that the IASB should use the business model concept when it develops or revises particular Standards? Why or why not?* *If you agree, in which areas do you think that the business model concept would be helpful?* *Should the IASB define 'business model'? Why or why not?* *If you think that 'business model' should be defined, how would you define it?*

The ANC has consistently supported the business model in that faithful representation of performance can only be achieved if the business model is reflected. We have therefore carried out a significant amount of work on the subject with European colleagues which has been published as a bulletin and as a research paper.

We fully support the conclusions in these papers which indicate that the business model, under the assumed meaning and characteristics developed in these papers, has a role to play in all aspects of financial reporting : recognition, measurement, etc.

See also our answer to question 22.

11 http://www.autoritecomptable.fr/sections/la_recherche_a_l_anc/actualites/efr_cf_bulletin_acco/downloadFile/file/EFR_CF_Bulletin_accountability_sept.pdf?nocache=1379079554.66

12 http://www.autoritecomptable.fr/sections/la_recherche_a_l_anc/travaux_dans_le_cadr/bulletin_prudence/downloadFile/file/Bulletin_Prudence.pdf?nocache=1365672848.83

13 http://www.autoritecomptable.fr/sections/la_recherche_a_l_anc/travaux_dans_le_cadr/bulletin_reliability/downloadFile/file/Bulletin_Reliability_of_financial_information.pdf?nocache=1365672939.12

Question 24
<u>Unit of account</u>
The unit of account is discussed in paragraphs 9.35–9.41. The IASB’s preliminary view is that the unit of account will normally be decided when the IASB develops or revises particular Standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information.
Do you agree? Why or why not?

We consider that there should be a high level unit of account consideration at the Conceptual Framework level within the context of an entity’s business model. This would help better operationalise its application at the individual standards’ level.

Question 25
<u>Going concern</u>
Going concern is discussed in paragraphs 9.42–9.44. The IASB has identified three situations in which the going concern assumption is relevant (when measuring assets and liabilities, when identifying liabilities and when disclosing information about the entity).
Are there any other situations where the going concern assumption might be relevant?

We agree with the situations identified by the IASB as to when the going concern assumption is relevant.

We are unsure of the IASB’s intentions on this topic. As mentioned in our answer to questions 5 and 7, we consider that there should be further developments in the Conceptual Framework than in the existing paragraph 4.1 of the Conceptual Framework. Such developments would have to somehow be linked to the notion of business model.

In addition, it would be useful to clarify whether, if the going concern assumption is not met and the financial statements may have to be prepared on a different basis, such financial statements are in compliance with IFRS, either because of this mention of the Framework, and/or of the accounting override as specified in IAS 8.

Question 26
<u>Capital maintenance</u>
Capital maintenance is discussed in paragraphs 9.45–9.54. The IASB plans to include the existing descriptions and the discussion of capital maintenance concepts in the revised Conceptual Framework largely unchanged until such time as a new or revised Standard on accounting for high inflation indicates a need for change.
Do you agree? Why or why not? Please explain your reasons.

We consider that capital maintenance is a fundamental accounting issue, as the meaning and interpretation of performance depends directly on the capital maintenance concepts chosen.
We therefore consider that an up-to-date discussion of capital maintenance instead of simply relying on the existing description is needed.

Indeed in practice and depending on the various business models, profit of productive activities is measured mainly through the generation of cash-flow and adjusted for depletion (depreciation, impairment) if necessary whereas, in trading or in certain financial activities, profit also includes a significant portion of assets/liabilities enhancements.

This is perfectly consistent with the basic financial theory in which the value of productive assets is created when they generate cash-flows in excess of the initial investment.

The existing framework supports this practice in paragraph 4.60 relating to profit and the concept of capital maintenance : « The concept of capital maintenance…..provides the linkage between the concepts of capital and the concepts of profit because it provides the point of reference by which profit is measured ; it is a prerequisite for distinguishing between an entity's return on capital and its return of capital ; only inflows of assets in excess of amounts needed to maintain capital may be regarded as profit and therefore as a return on capital. Hence, profit is the residual amount that remains after expenses (including capital maintenance adjustments were appropriate) have been deducted from income ».

Because accounting is considered by most entities as a major tool for measuring capital employed and the return on it, the most practiced way of determining profit is in perfect accordance with the principle of cash-flow generation and capital maintenance. The actual practice is –and will most probably remain- as follows :

Profit = Cash-flows from operations, less amortisation and provisions, plus cut-off accruals. (ie. in a way illustrated by the indirect cash-flow statement presentation).

Therefore, we are of the view that the discussion on capital maintenance should be carried out in a broader context than addressing hyperinflation or reevaluation issues.