Project Manager
International Accounting Standards Board (IASB)
30 Cannon Street

London EC4M 6XH
United Kingdom

Weinheim, 14/01/2014

Dear Sir or Madam,

DP/2013/1 – A REVIEW OF THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

We appreciate the opportunity to comment on the discussion paper DP/2013/1 regarding the review of the conceptual framework for financial reporting.

The Association for Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF) was founded in 2006 and consists of German companies with a strong family shareholder background. Beyond its members, the association represents a large part of family-owned large and medium-sized entities in Germany, often legally organised in the form of partnerships. The aim of the VMEBF association is to make the role of German family businesses as stakeholders in the development of international accounting more visible and to act as a constructive partner for the standard setters. We work closely together with the German standard setter ASCG and the German Institute of Chartered Auditors (IDW) as well as other political institutions.

Although we understand that a project as complex as the improvement of the conceptual framework takes some time, we believe that the IASB should not start working on any fundamental revision or development of financial reporting standards without the revised conceptual framework being completed. Developing or revising financial reporting standards parallel to the revision of the conceptual framework would only lead to standards that in the end might not comply with the framework.

We welcome that the IASB abandoned the completion of the project in separate stages. A premature completion of single chapters of the conceptual framework would have led to parts of an (improved) framework being effective while their impact on other phases of the project would not have been deliberated by the Board yet.

However, we still have some concerns regarding the direction of the conceptual framework project:

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- We believe that the authoritative status of the framework is inappropriate. A conceptual framework that is not able to override the standards themselves cannot be the basis for a high quality principle-based financial reporting. A framework on a hierarchical level above the standards would enable the standard setter to develop lean and concise financial reporting standards without the variety of casuistic exceptions from the principles initially adopted that are effective in current IFRSs (see our answer to question 1).
- We believe that recognition thresholds (as part of the recognition criteria) are essential for meaningful information in the statement of financial position (see our answer to question 3).
- We strongly recommend an approach to capital distinction allowing puttable instruments (e.g. in the context of partnerships) to be classified as equity (see our answer to question 10).
- We do not agree with some of the views on measurement. For example, we do not think that assets contributing to future cash flows by being sold should exclusively be measured on a current exit price basis (see our answer to question 12).
- We believe that profit or loss is too important an indicator for an entity´s performance to simply depict it as a (sub-)total in some combined performance statement (see our answer to question 19).
- We believe that due to the importance of topics like stewardship, prudence or reliability the IASB should reopen chapters 1-3 of the recently revised conceptual framework (see our answers to question 22).
- We believe that the IASB should refrain from implementing a business model approach in the conceptual framework and rather reintroduce something like the former “substance over form” criterion as a qualitative characteristic of financial reporting (see our answer to question 23).
- We are concerned about the fact that a new conceptual framework will require the IASB revising a large number of existing IFRSs. As the IASB only has limited resources and a comprehensive work plan, this process will take several years. Therefore, the Board has to develop and communicate a detailed plan on how the project agenda will change due to the new conceptual framework.

Please refer to the appendix to this letter for our detailed answers to the questions asked in DP/2013/1.

Kind regards,

Vereinigung zur Mitwirkung an der Entwicklung des
Bilanzrechts für Familiengesellschaften e.V. (VMEBF)

Prof. Dr. Dieter Truxius | Peter Krieg | Prof. Dr. Norbert Winkeljohann

Appendix: VMEBF comments on the boards´ additional questions

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?

From our point of view, the authoritative status of the conceptual framework is inappropriate. We believe that a conceptual framework that is not able to override the standards themselves cannot be the basis for a high quality principle-based financial reporting. Instead, a conceptual framework on a hierarchical level above the standards would enable the standard setter to develop lean and concise financial reporting standards without the variety of casuistic exceptions from the principles initially adopted that are effective in current IFRSs (cf. IAS 32). Nevertheless, this requires a comprehensive and accurately elaborated underlying concept. Such an underlying concept would also enable preparers of financial statements to deduce consistent and robust accounting principles. Therefore, the IASB should reconsider the authoritative status of the conceptual framework.

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?

In principle, the proposed definitions of an asset and a liability seem to be reasonable. However, the IASB should clarify terms like "present" in combination with an economic resource (meaning under an entity´s control at the reporting date) or "capable" as a replacement for "expected" in the context of generating economic benefits. For example, we believe that using the term “capable” instead of “expected” will lead to an expansion of what fulfils the definition of an asset. The IASB should also consider that the interpretation of such a term can be highly subjective and will regularly be subject to judgement. Moreover, we believe there will be practical problems using the definitions as proposed in connection with the proposals regarding recognition of an asset or a liability.

Question 3

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

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

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

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

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

We understand the IASB wanting to remove the double use of uncertainty (in the definition of an asset/liability and the recognition criteria). However, we do not agree with the proposals to remove the reference to probability in both the definitions and the recognition criteria. Removing the uncertainty from the existing definitions seems to be acceptable. Nevertheless, we believe that recognition thresholds (as part of the recognition criteria) are essential for meaningful information in the statement of financial position. Especially assessing the probability of existence is a question of recognition and not of measurement. Deleting recognition thresholds might therefore lead to recognition of a considerable number of items that are unlikely ever to be realised (refer to our answer to question 8).

Question 4

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

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

We believe that the IASB should further define the terms used when discussing the elements for the statement of profit or loss and OCI, the statement of cash flows and the statement of changes in equity. For example, the discussion paper distinguishes revenues from gains and expenses from losses with reference to an entity´s “ordinary activities”. However, the discussion paper does not contain a sufficient clarification of what is meant by that term. With regard to the importance of revenues/gains and expenses/losses as performance indicators, the IASB should more clearly define those terms with reference to the measurement of an entity´s performance.

With reference to par. 2.52 of the discussion paper, we would propose the IASB including definitions of the elements listed in that paragraph in the upcoming exposure draft.

<u>Question 5</u>

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

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

We agree with the preliminary view of the IASB. The Board should retain the existing definition of a liability, which encompasses constructive obligations. However, we believe that the IASB should choose a broader definition of what is proposed to be a constructive obligation than in the discussion paper. The scope of par. 3.50 of the discussion paper seems to be too narrow in the context of a complete recognition of an entity´s obligations. For example, under certain circumstances an entity might have no realistic alternative than to incur future costs not outweighing the accompanying benefits. In those situations, the entity should have to recognise a liability as that kind of information is relevant for the users of financial statements.

<u>Question 6</u>

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.

We tend to vote in favour of View 2. We believe that View 1 would lead to a rather late recognition of liabilities. The entity would not recognise a liability although it would be able to avoid the liability theoretically. With View 1 the IASB would turn towards a widely legalistic approach that would rather reduce decision-usefulness as such an approach would in many cases not necessarily reflect the economic substance of the underlying transaction. On the contrary, View 3 would lead to recognition of a liability even if the conditions to be met would be elusive or at the discretion of the entity. This would result in a biased picture of an entity´s financial situation.

Although we tend to favour View 2, the IASB should provide more guidance on what is ment by “practically unconditional” (e.g. having no realistic alternative to settling the obligation). A rather wide interpretation of that term could result in almost the same outcomes when applying View 3. Moreover, the Board should clarify the definition of a past event.

Question 7

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

As the IASB uses several terms that are not defined in a clear and consistent way, we would propose the Board adding more effort to the definitions used in the discussion paper. For example, the control notion is not defined consistently throughout several IFRSs (e.g. IFRS 10, IAS 38 or the exposure draft on Revenue Recognition). The IASB should clarify whether those definitions of control are considered equivalent or whether it intends to harmonise those definitions in the future.

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 pointed out in our answer to question 3, we propose probability-based recognition thresholds to be retained.

<u>Question 9</u>

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

(a) enhanced disclosure;

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

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

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

We agree with the IASB´s view that an entity should derecognise an asset/liability when it no longer meets the recognition criteria. However, we believe that recognition thresholds are essential for decision-useful information. Moreover, the Board should provide more guidance on the control notion (e.g. the role of a right to returns in terms of risks and rewards; also see our answers to several questions above). With regard to components of assets/liabilities remaining with the entity, we would tend to favor approach (a). Although approach (b) would lead to useful information on the face of the balance-sheet, we believe that identifying and measuring the remaining rights and obligations would pose an enormous burden for preparers of financial statements with benefits usually not justifying the cost of preparing the information. In this context, please refer to our answer on question 24 regarding the discussion on the unit of account. We believe that the unit of account should reflect an individual asset/resource or an individual obligation and not break down an individual asset into a bundle of separate rights. Therefore, we believe that enhanced disclosure requirements should pose a more simple and pragmatic alternative. Approach (c), on the other hand, might be easy to apply but would not reflect the economic substance of the underlying transaction in the statement of financial position.

<u>Question 10</u>

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 with the IASB's preliminary view of not changing the existing definition of equity. Equity should further on be defined as the residual interest in the assets of an entity after deducting all its liabilities.

In the past, many partnerships had to classify their interests as liabilities when applying IAS 32. The amendments to IAS 32 (rev. 2008) helped to solve some of the problems of partnerships applying the standard. With the new proposals in mind, we are concerned that both of the approaches proposed in the discussion paper might conflict with the exceptions regarding puttable instruments currently applied in IAS 32. As the majority of our member companies is legally organised in the form of partnerships, it is essential to us to retain the classification of those puttable instruments as equity instruments. From a conceptual point of view, any kind of rule distinguishing between equity and liabilities has to be applicable across different legal forms and jurisdictions.

Although we recognise the charm of the narrow equity approach incorporating some of the exceptions under IAS 32 (rev. 2008), we believe that consistent application of the approach would again lead to practical problems for partnerships. For example, the narrow equity approach refers to the most residual class of instruments (i.e. owners). However, there will be problems when there are legal forms with more than one class of owners (e.g. in partnerships the limited and general partners).

Therefore, the strict obligation approach might better meet the requirements of partnerships. The definition of equity as a residual interest and could again be complemented by criteria allowing puttable instruments to be classified as equity. With this in mind, we would insistently propose the IASB to revisit this issue when (in the future) revising IAS 32. Before then the strict obligation approach should not endanger equity classification of partnerships, as the conceptual framework is not intended to overrule regulations set out in the standards themselves (i.e. IAS 32 and the exceptions for puttable instruments granted in the standard).

We believe that the IASB should redeliberate the approaches proposed and their effects on capital classification. Moreover, the IASB should include other approaches like e.g. the Loss Absorption Approach developed by European standard setters (although using the Loss Absorption Approach would call for a change in the definition of equity as a residual). For now the impacts of the proposals on entities in different legal forms are not foreseeable.

<u>Question 11</u>

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?

We principally agree with the preliminary view as pointed out in discussion paper. However, we believe that especially when choosing a measurement method some kind of "substance over form" criterion should play a role. A substance over form criterion in combination with the information on an entity´s nature of business as provided in an entity´s management commentary could help users of financial statements to understand how an asset contributes to future cash flows of an entity or how the entity fulfills its liabilities and thereby assess the entity´s financial situation. We understand substance over form as an accounting principle used to ensure that financial statements give a complete, relevant and consistent picture of an entity´s transactions. If substance over form is applied correctly, the financial statement shows the overall financial reality of an entity (i.e. its economic substance) rather than the legal form of the underlying transactions. Substance over form is crucial for reliable financial reporting, particularly when depicting for example revenue recognition or financing transactions.

Moreover, we explicitly support the cost constraint as discussed in the context of measurement.

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 do not agree with the view that assets contributing to future cash flows by being sold should exclusively be measured on a current exit price basis. From our point of view, inventory or other assets held for sale in the ordinary course of business should not be measured at current exit prices. For inventory, the Board should think about a "lower of cost or net realisable value" measurement model.

Furthermore, the IASB should think about implementing a reliability exemption if the exit price (fair value estimate) of an asset cannot be measured reliably. Especially in illiquid markets we doubt that fair values always pose a meaningful measurement basis. For those assets a cost exemption would be a reasonable measure.

For the other types of assets we principally agree with the preliminary views of the IASB.

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 preliminary view of the IASB.

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?

There still might be contracts that fulfill the conditions as set out above but cost might be the best measure. We therefore principally agree with the IASB´s preliminary views but like to encourage the Board to redeliberate on such exemptions.

Question 15

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

We would like to reemphasise that the IASB should retain probability-based recognition thresholds. Without such thresholds measurement in some circumstances would be based on probability weighted average values. We object to the use of such measures as in many cases they do not reflect the economic reality of the underlying transaction. Moreover, the IASB could comment on the question of whether or how to consider risk on discount rate level in the context of cash-flow-based measurements.

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.

As already pointed out in our answer to question 1, we do not agree with the authoritative status of the conceptual framework as proposed. However, with regard to the preliminary views about the scope and content of guidance as set out in the discussion paper, we would like to draw some attention to the peripheral areas between financial statements and other elements of financial reporting (such as management commentary). The IASB should put more emphasis on those areas and more clearly define the differences between the different parts of financial reporting.

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 believe that the concept of materiality is established adequately in the current conceptual framework. As materiality issues have to be assessed in an entity-specific context, we doubt that additional guidance on materiality will lead to a considerable decrease in divergence in practice. However, an important aspect of materiality would be its application in the context of disclosure requirements. The IASB should consider that question when working on a disclosure framework.

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 doubt that the integration of communication principles will help the IASB in developing understandable and meaningful disclosure requirements. Some of the principles listed in par. 7.50 of the discussion paper are very similar to the qualitative characteristics of useful financial information (chapter 3 of the current conceptual framework). We still miss a consistent concept underlying the development of the communication principles and distinguishing them from the qualitative characteristics. We still do not fully understand how the Board plans to use those principles when developing or revising disclosure requirements in a standardized process. With this in mind, the IASB should try aligning the wording used when defining its communication principles with the wording used for its qualitative characteristics as the terms used in chapter 3 of the conceptual framework already have been discussed extensively and are commonly understood in the financial community.

Question 19

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

Do you agree? Why or why not?

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

We understand that the IASB tries to account for the importance of profit or loss as a measure of an entity´s financial performance by requiring a total/subtotal in its performance statements. However, we believe that profit or loss is too important an indicator for an entity´s performance to simply depict it as a (sub-)total in the combined performance statement (if that option is chosen). Instead, profit or loss should always be the total of a separate statement emphasizing the importance of profit or loss as a basic parameter for financial analysis and communication and following a predefined and consistent structure of its content.

Furthermore, we believe the IASB first of all has to discuss the purpose, objective and nature of profit or loss respectively OCI in more detail in order to assess its overall importance in the context of performance measurement. Especially with regard to the predictive value of profit or loss, we believe that profit or loss has to be defined as the "performance of the period" to lead to more meaningful information. With this in mind, the Board should define what kinds of items have a predictive value for an entity´s (future) performance and therefore should be recognized in profit or loss. This should also be in line with the basic idea of the IASB as stated in par. 8.46: "*Because items within profit or loss provide the primary source of information about the return an entity has made on its economic resources, the IASB's presumption is that recognising an item in OCI would be appropriate only when such a presentation enhances the relevance of profit or loss* […]". For example, this is true for some unrealized gains resulting from (fair value) remeasurements.

However, we do not think that the approach to distinguishing between profit or loss and OCI as proposed in the discussion paper constitutes a consistent and robust concept. From our point of view, further in-depth research is necessary to develop a concept considering the interaction of the attributes/factors quoted in table 8.1.

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?

With regard to recycling, the IASB should choose an approach that is easy to apply and follows a consistent and unambiguous underlying concept. From our point of view, requiring recycling for each and every item previously recognised in OCI would lead to most consistent and understandable information. However, the Board could think about (very rare) exceptions to be made for cost/benefit reasons.

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.

We object to both of the approaches as described in the discussion paper. Please refer to our answers to question 19 and 20 for our views on that topic.

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.

We understand the IASB´s proposal not to reopen the discussion on stewardship, reliability and prudence unless there is a need for clarification resulting from the work on the rest of the conceptual framework. However, we believe that due to the importance of those topics the IASB should rethink its preliminary view and reopen chapters 1-3 of the recently revised conceptual framework (see our reasoning below).

We principally welcome the approach to dealing with stewardship in the 2010 conceptual framework. Financial reporting has – besides its decision-usefulness – the objective to provide information to assess management´s performance. As most of the users of financial reports lack that kind of information, financial reporting has to adjust this shortcoming by providing information that allows its users to assess the performance of management. With this in mind, we believe that the IASB should prominently establish stewardship as an equal objective besides decision-usefulness. We are aware that one can take the view that assessing stewardship is covered by the decision-usefulness of information. In contrast, we consider stewardship to require different information than provided to fulfill the decision-usefulness criterion. Focussing on decision-usefulness leads to an overemphasis on forecasting future cashflows and fair value measurement. In addition, an adequate consideration of stewardship would improve cost-benefit ratios as it leads to an enhanced convergence between external financial reporting and internal management information. Hence, the stewardship function of financial reporting should be elevated and drafted as a separate objective.

Moreover, we would propose reintroducing prudence and reliability as qualitative characteristics. We believe that prudence is an essential characteristic when dealing with uncertainties and making estimations. As estimating the future is highly arbitrary, a prudent accounting methodology can prevent the understatement of liabilities as well as the overstatement of assets and would enable users of financial statements to better assess an entity´s solvency. Furthermore, prudence is an indispensable criterion when discussing recognition matters like revenue recognition and so forth. On the contrary, conservatism is rather understood in the context of accumulating undisclosed reserves in practice. With this in mind, prudence could (as it might not be understood unitarily) be defined in a way restricting the recognition of undisclosed reserves.

Additionally, we believe that faithful representation still is not better understood than reliability. In Germany e.g. there are a lot of varying translations of faithful representation and in consequence it is differently understood. Furthermore, we believe that reliability has a different meaning than faithful representation. While the 2010 conceptual framework stresses the focus of faithful representation on the depiction of economic phenomena, reliability has a nuance of assessing the economic phenomenon itself. Therefore, we would recommend the use of the term reliability rather than faithful representation and defining it unambiguously.

<u>Question 23</u>

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 business model describes the basic principle of how an entity generates or preserves value (e.g. in terms of cash flows). Therefore, an understanding of the business model of an entity can help users better assess the economic situation of an entity. However, as the IASB refrains from defining the notion of the business model in detail, we are concerned that adding that approach to the conceptual framework might have unforeseeable effects on financial reporting. For example, we believe that a business model approach might allow more structuring opportunities or managerial judgement for preparers of financial statements as the business model of an entity can be seen as highly specific and unique and therefore be interpreted in a rather "customized" way.

As the reasoning of the IASB seems to aim at a depiction of an entity´s transactions in the context of an entity´s business activities and its business environment, the Board should think about reintroducing something like the former "substance over form" criterion as a qualitative characteristic of financial reporting. Such a qualitative characteristic would help the Board to focus on the economic substance of an entity´s activities and would not be subject to discretionary decisions too excessively.

Eventually, the information disclosed in an entity´s management commentary should sufficiently provide users of financial reporting with information on an entity´s business model. It should therefore enable users of financial statements to evaluate whether the presentation of relevant transactions in the financial statement of an entity is appropriate in the context of the information as presented in management commentary. However, as the practice statement management commentary only is non-mandatory guidance, it will continue to lack authoritativeness.

Question 24

Unit of account

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

Do you agree? Why or why not?

We do not agree with the IASB´s proposal to decide on the unit of account on an individual standard level. From our point of view, the Board should provide more conceptual guidance on the conceptual framework level.

Additionally, we think that the unit of account should reflect an individual asset/resource or an individual obligation and not break down an individual asset into a bundle of separate rights. There certainly might be exemptions to this rule. However, the Board should not set that as a default. Identifying and measuring such separate rights would pose an enormous burden for preparers of financial statements with benefits usually not justifying the cost of preparing the information.

Question 25

Going concern

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

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

The going concern assumption might also be relevant in the context of presentation of financial information (e.g. when distinguishing between current and non-current items in the statement of financial position).

Question 26

Capital maintenance

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

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

We have no further comments on this topic and agree with the proposal.