

European Financial Reporting Advisory Group  
35 Square de Meeûs  
1000 Brussels  
Belgium  
By email to: [commentletters@efrag.org](mailto:commentletters@efrag.org)

18 November 2015

Dear Sirs,

**Ref.: EFRAG's Public Consultation – IASB's Exposure Draft on the Conceptual Framework for Financial reporting**

The International Swaps and Derivatives Association (“ISDA”)<sup>1</sup> is pleased for the opportunity to respond to the above referenced Public Consultation on the Exposure Draft (‘ED’) issued by the International Accounting Standards Board (“IASB”). Our responses focus on those aspects of the Conceptual Framework and the EFRAG draft response that are most relevant to our members. In this letter we outline our key messages and in the Appendix we provide our more detailed responses to the specific questions.

- *Prudence:* Our members support the reintroduction of the concept of prudence as drafted by the IASB, but agree with EFRAG that reference might usefully be made to its use by the IASB itself and asymmetric prudence in some IFRSs. However, the majority of our members would not be comfortable with a more explicit notion of asymmetric prudence, due to the risk that this could be taken to be a move towards standards that are more asymmetric than is currently the case.
- *Measurement uncertainty and Relevance:* The majority of our members do not agree with the draft responses on these matters and agree with the IASB that measurement uncertainty is most usefully regarded as an element of relevance, while faithful representation is a wider notion than ‘reliable’.

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<sup>1</sup> Since 1985, the International Swaps and Derivatives Association has worked to make the global derivatives markets safer and more efficient. ISDA's pioneering work in developing the ISDA Master Agreement and a wide range of related documentation materials, and in ensuring the enforceability of their netting and collateral provisions, has helped to significantly reduce credit and legal risk. The Association has been a leader in promoting sound risk management practices and processes, and engages constructively with policymakers and legislators around the world to advance the understanding and treatment of derivatives as a risk management tool. Today, ISDA has over 850 member institutions from 68 countries. These members comprise of a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. ISDA's work in three key areas – reducing counterparty credit risk, increasing transparency, and improving the industry's operational infrastructure – show the strong commitment of the Association toward its primary goals; to build robust, stable financial markets and a strong financial regulatory framework. Information about ISDA and its activities is available on the Association's web site: [www.isda.org](http://www.isda.org).<sup>1</sup>

**International Swaps and Derivatives Association, Inc.**

One Bishops Square  
London E1 6AD, United Kingdom  
P 44 (0) 20 3088 3550 F 44 (0) 20 3088 3555  
[www.isda.org](http://www.isda.org)

NEW YORK WASHINGTON  
LONDON BRUSSELS  
HONG KONG SINGAPORE  
TOKYO

- *Executory contracts:* Our members do not agree with the EFRAG discussion on this topic and do not consider the ‘core transaction’ concept very useful.
- *Dual measurement bases:* the majority of our members do not agree with EFRAG’s proposal. They consider that amortised cost would provide more useful balance sheet information for debt financial instruments held within a business model with an objective of both collecting and selling than fair value through other comprehensive income (OCI). Use in IFRS 9 of fair value through OCI was a lost opportunity to simplify accounting for financial instruments.
- *Recycling:* Our members agree that profit or loss should be the primary measure of performance and that more work needs to be carried out to refine this concept. They also agree that there should be a more conceptual discussion of the use of OCI in the Framework and that the need to recycle all gains and losses to profit or loss should be more than a rebuttable presumption.
- *Dynamic risk management:* When the IASB published its Discussion Paper on Dynamic Risk Management, the concern was expressed that the idea of hedging changes in the fair value of an entity’s equity would require modification of the Conceptual Framework. Our members agree that that the Conceptual Framework need not be modified at this time in this manner, but would not want future progress on the accounting for macro hedging activities to be constrained by what is written in the Framework. It would be helpful if the Conceptual Framework recognised that this issue needs further consideration, which should be undertaken when developing the future standard, in the same way as the ED deals with the classification of equity instruments.

Should you have any questions or would like clarification on any of the matters raised in this letter please do not hesitate to contact the undersigned.

Yours faithfully,

David Bradbery  
Barclays Bank plc  
Chair, European Accounting Committee

Antonio Corbi  
ISDA  
Risk and Capital

Appendix – Responses to specific questions raised by EFRAG

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*Question 1 – Proposed changes to Chapters 1 and 2*

*Do you support the proposals:*

*(a) to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management’s stewardship of the entity’s resources;*

*(b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality;*

*(c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;*

*(d) to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and*

*(e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?*

*Why or why not?*

*1 (a) Stewardship*

Response:

Our members agree that stewardship has a role in financial reporting but that just adding the term does not add much to the revised conceptual framework, as drafted. The consequences of the role of stewardship are not elaborated on in the ED. This may be, in part, because of the focus of the ED on the needs of users for ‘buying, selling or holding’ equity and debt instruments, without explicit recognition that shareholders make decisions other than just whether to buy, hold or sell. They also engage in the appointment of directors and cast votes at general meetings and, through these powers, influence management’s actions, as set out in paragraph 10 of the draft response. To use these powers successfully, shareholders need information on stewardship, but our members recognise that the relevant information extends beyond that which is contained in financial information. It embraces much of the remainder of the annual report, including information on a wide range of matters, such as forward order books, staff development, environmental sustainability and other information such as the current values of intangible assets, which are not reflected in IFRS financial statements

Although our members agree with what EFRAG says on stewardship, they query the last line of paragraph 10. Why wouldn’t potential investors, lenders and other creditors qualify as primary users of financial statements?

*Question to constituents:*

*Throughout the ED, ‘users’ refers to those existing and potential investors, lenders and other creditors who must rely on general purpose financial reports for much of the financial information they need.*

*Do you agree with focusing on this group of users? If not please indicate how it should be either narrowed down or widened, and why.*

Response:

A majority of our members agree with the way that the ED describes ‘users’ of general purpose financial information. However our members would be concerned if management of the entity cannot use the same language to conduct the business and to report financial information to shareholders. This would lead to a disconnect between management activities and how they are reported, with the potential for stakeholders’ confusion and a need to use non-GAAP measures in the financial report. As a result, a minority of our members also view management as a ‘user’ of general purpose financial information. Also, in this context, our members believe that the following EFRAG’s proposal would be helpful: “Management, however, can be expected to have knowledge of information that would be useful to depict the financial position and performance of entities. Accordingly, where preparers’ views tend to converge and are strongly of the view that requirements in the proposal would not depict financial performance or financial position in a way that provides useful information, the IASB should be required by the Conceptual Framework to provide the reasons why they do not agree with the views expressed by preparers.”

1 (b) Prudence

Our members support the reintroduction of prudence into the Conceptual Framework, in the manner set out in the ED. However, they agree with EFRAG’s concern expressed in paragraph 24 (c), that the treatment of prudence in the ED focuses on how financial statements are prepared and not on how standards are set. They also agree that there is sometimes a need for ‘asymmetric prudence’, as is already the practice within IFRS, such as (for instance) the different IAS 37 recognition thresholds for assets and liabilities and the use in IFRS 5 of the lower of the carrying amount and fair value less costs to sell. They would be comfortable with the proposed wording set out in paragraph 25 of the response, but the majority of our members are concerned that the introduction of a more explicit notion of asymmetric prudence beyond this could be misinterpreted as a move towards standards that are more asymmetric than is currently the case, and so should be avoided.

1 (c) Substance over form

Our members agree with the comments made in the EFRAG draft response about substance over form – especially paragraphs 28 and 29 concerning the ‘legal substance’ and the consequences of different legal jurisdictions.

1 (d) Measurement uncertainty

The majority of our members do not agree with the draft EFRAG response to this question, since they believe that measurement uncertainty is most usefully regarded as an element of relevance and that faithful representation is a wider concept than ‘reliable’, as set out in BC 2.24 to the ED. The minority would prefer to use ‘reliable’ rather than ‘faithful representation’ as it would give greater emphasis on the importance of measurement certainty. In particular, our members disagree with how paragraph 36 of the draft response is phrased. They agree that there must be a linkage between the inputs, assumptions, models and sources of data, and the economic reality that the valuation process purports to present. They would have no problem with this being explicitly stated in the Conceptual Framework, particularly the references to inputs, assumptions and sources of data, although they believe that this is already implicit in the definition of reliable representation. But they disagree with the idea that paragraph 36 conveys, that a model that is not widely used by market participants necessarily lacks linkage with economic reality. Any pricing model must possess this linkage, otherwise it would be of no use as a model.

All dealers develop their own models. While there will often be similarities between them, making use of similar mathematical techniques, such models will usually not be exactly the same. The term ‘widely used’ is unhelpful as it implies that most market participants use the same models, and it begs the question as to how much of a variation from the norm would still count as ‘widely used’. The term would introduce unnecessary lack of clarity.

While the models used to value derivative contracts, especially those contracts that are more innovative, may not be ‘widely used’, the pricing is not necessarily less reliable. What is important is that the model has a sound theoretical basis and is properly developed and tested. As is recognised by IFRS 13, the major source of uncertainty in valuing complex derivatives is not so much the model as the inputs, if they are not sourced from active market prices. This is why there are various disclosure requirements relating to level 3 valuations, including the effect of using reasonable alternative assumptions and the amount of unrealised profits that have been recognised. Further, for such derivatives, it is worth stressing that IAS 39 and IFRS 9 do not permit the recognition of ‘day one’ profits on initial recognition.

Some of our members note that paragraph 40 of the draft response also links reliable measurement and prudence. Given the support that EFRAG appears to give to ‘asymmetric prudence’ (see above), this could be read to mean that it would sometimes be appropriate to recognise fair value losses on complex derivatives, but not fair value profits (as has been previously suggested by some constituents) . Our members would disagree with this notion. The main challenge with such an approach would be that complex derivatives are rarely traded in isolation, but usually as part of a portfolio of financial instruments, many of which can be valued directly by reference to market prices. It will often be the case that gains or losses on more complex derivatives will be offset by losses and gains on simpler instruments. To recognise fair value losses on the simpler instruments, without recognising fair value profits on complex derivatives, would mismatch the recognition of gains and losses, to the extent that it would be necessary to extend the hedging rules of IAS 39 and IFRS 13 to allow simpler derivatives to be designated as hedges of complex derivatives. This would be an inefficient way of achieving much the same result as fair valuing the complex derivatives in the first instance. In any event, as already mentioned, IFRS does not permit day one profits to be recorded when level 3 instruments are first recognised.

It is possible that a concern to avoid such a mismatch is reflected in paragraph 106 of the draft response, which supports the idea of avoiding an accounting mismatch by not recognising any changes in fair value of the entire portfolio. But, as it goes on to say, whether this approach would provide relevant and useful information would depend on the entity’s business model. This paragraph could be read to be applicable to financial instruments; our members do not believe that it would be ever be relevant or useful not to record a trading portfolio at fair value just because the measurement of some of the instruments in the portfolio is less reliable.

*1(e) Relevance and faithful information*

As already set out, the majority of our members agree that relevance and faithful representation should continue to be the two fundamental qualitative characteristics of useful financial information.

*Question to constituents:*

*EFRAG’s preliminary answer to Question 1(d) includes arguments for using the term ‘reliability’ instead of ‘faithful representation’. EFRAG would, however, wish to assess whether constituents have become used to the term ‘faithful representation’ introduced in 2010, have a good understanding of it, and therefore would prefer not to revert to ‘reliability’. What is your assessment of this?*

Response:

As already set out under 1 (d), the majority of our members believe that faithful representation is a better term than reliability to use in the Conceptual Framework as a fundamental quality of financial reporting.

*Question 2 – Description and boundary of a reporting entity*

*Do you agree with:*

*(a) the proposed description of a reporting entity in paragraphs 3.11–3.12 of the ED (replicated in paragraph 50(a) – (b) above); and*

*(b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25 of the ED (summarised in paragraph 50(c) – (e) above)?*

*Why or why not?*

Response:

Our members agree with EFRAG's view that the reporting entity is not necessarily a legal entity. They also agree with the concern expressed by EFRAG in paragraph 55 concerning the ED's statement that consolidated financial statements more likely to provide more useful information than unconsolidated financial information. While consolidated financial statements are of considerable value, a lender will always wish to understand the financial position of the actual obligor (or guarantor) to whom he will be exposed, while a minority shareholder will need financial information on the entity in which they have invested.

*Question to constituents*

*Do you agree that there is no urgent need to justify the choice of control as the basis for consolidation from a conceptual perspective? If no, please explain what EFRAG should recommend to the IASB.*

Response:

Our members agree with EFRAG that the Conceptual Framework should contain a better explanation of why control is the underlying principle used to define a reporting entity but also agree that there is no urgency to make this adjustment.

*Question 3 – Definitions of elements*

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

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

*(b) a liability;*

*(c) equity;*

*(d) income; and*

*(e) expenses?*

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

Response:

Our members agree with EFRAG regarding the definitions in the ED. They also agree with EFRAG that a liability of one party is not necessarily an asset of another and that revenue should be an element of financial information. They also agree with the point made by EFRAG in paragraph 79, that the conceptual framework will need to be revised at a future date to reflect the outcome of the project to distinguish equity and liabilities.

*Question to constituents*

*Do you agree with the view that the asset liability approach leads to more robust and consistent financial reporting than a pure matching approach? (Why/why not?)*

Response:

Our members do not agree that an asset/liability approach is, on its own, the best way to achieve robust and consistent financial information. They have always regarded matching as an important principle. For instance, based only on an asset/liability approach there would be no conceptual basis for cash flow hedge accounting; however, it is generally accepted that cash flow hedge accounting is helpful in order to represent faithfully an entity's results, primarily based on a matching principle.

*Question 4 – Present obligation*

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

Response:

Our members agree with EFRAG's views on the ED description of a present obligation and a constructive obligation. Our members also believe that an entity should sometimes be able to recognise a liability when it has no practical ability to avoid it. They are not supportive, for instance, of the approach to recording bank levies set out in IFRIC 21. However, our members share EFRAG's concerns with the novel approach to present obligations, as set out in paragraph 85 of the draft response and that there may be unintended consequences with what is proposed in the ED. A present obligation approach would need to be very carefully thought through in any future project to replace IAS 37. The problem of bank levies might be better addressed by adjusting IAS 34, to allow levies to be accrued over the year in a manner similar to staff bonuses.

*Question to constituents*

*Although the change proposed appears appealing, EFRAG notes that it could have far-reaching consequences that need to be assessed. EFRAG will therefore during the comment period collect input on the proposed definitions.*

*Please provide input on this issue.*

Response:

Although our members believe that recognising a liability when an entity has no practical ability to avoid it is a step in the right direction, they share EFRAG's unease about the application of what is proposed in the ED (see above).

*Question 5 – Other guidance on the elements*

*Do you have any comments on the proposed guidance?*

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

Response:

## Executory contracts:

Our members do not agree with the EFRAG assessment of the ED's treatment of executory contracts, as set out in paragraph 91. It is not the case that entering into a contract, as opposed to fulfilling it, is a core transaction for derivatives dealers. Nor is it the case that fulfilling a contract is a core transaction for a supplier of goods or services and entering into the contract is not. The concept of a core transaction is new and could result in confusion.

The profitability of a derivatives dealer depends not only on entering into new trades but on its ability to ensure that payments under its derivative contracts are correctly settled and that market and counterparty risks are managed effectively throughout the contract lives. And key to the management of market risks is that derivatives are rarely traded as individual transactions, but as part of an ongoing portfolio of other financial instruments. Meanwhile, suppliers of goods and services depend for their profitability on entering into contracts. Indeed, 'sales' may be a more important KPI for internal management purposes for many companies than 'revenue'. Further, apart from 'own use' derivative contracts which are outside the scope of IAS39 and IFRS 9, our members do not believe that, the accounting for a derivative by a supplier of goods and services should differ from that by a dealer, whereas the 'core transaction' logic would suggest that it should.

The reason that, for financial reporting purposes, an entity records derivatives from their trade date at fair value and a supplier of goods and services records revenue on a fulfilment basis is, as set out in paragraph 4.41 of the ED, dependent on the accounting recognition criteria and measurement basis. The latter, as described in chapter 6 of the ED, is driven by what is relevant and achieves a faithful representation. Because risk management is such an important aspect of dealing or using derivative contracts, changes in fair value, both positive and negative, are relevant information to users of accounts. Meanwhile, the more useful metric for suppliers of goods and services is their gross margin, which can only be measured once the contract is fulfilled. The exception to this is, of course, when a contract is considered onerous,



in which case, because an onerous contract is an exception for normal business activity, the most relevant and faithful representation of the situation to record an estimate of the loss.

Hence our members do not believe that there is a problem to be solved (as stated in paragraph 90 of the draft response), or a likelihood of confusion (paragraph 92), or that further guidance on executory contracts is needed.

*Question 6 – Recognition criteria*

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

Response:

Our members have no comments.

*Question 7 – Derecognition*

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

Response:

Our members agree with the EFRAG draft response. They are pleased that the direction of travel as set out in paragraph 5.30 of the ED, recognises that it may be inappropriate to derecognise an asset if at the same time as selling it, the entity enters into a forward contract, a written put option or purchased call option under which the asset must or may be reacquired. Our members believe that repos should be recorded as collateralised loans, whereas under a control-based approach repo'd assets would be derecognised.

However, our members would disagree with the wording of paragraph 5.30 (b) of the ED, as the reason for not derecognising the asset should be the continued exposure to risks and rewards, rather than the fact that the asset must or may be reacquired. For instance, if an entity enters into a 'repo to maturity', by which it sells the asset but is at risk for any shortfall in fair value at maturity, it is still exposed to the main risks and rewards, even if there is no contractual obligation to reacquire the asset. Similarly, an entity might sell an asset but enter into a total return swap, which gives it the same exposure to risks and rewards as if it had continued to own the asset. In each case our members do not consider it appropriate to derecognise the asset.

The ED refers implicitly to risks and rewards without using the term, whereas the notion is clearly used in standards such as IFRS 9/IAS 39 and IFRS 15. We would prefer the term to be directly used in the Conceptual Framework alongside the notion of control. The Framework should also recognise the potential conflict between these two principles and that resolution of this conflict should be addressed at a standard level.

*Question 8 – Measurement bases*

*Has the IASB:*

*(a) correctly identified the measurement bases that should be described in the Conceptual Framework? If not, which measurement bases would you include and why?*

*(b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?*

Response:

The ED correctly identifies the various possible measurement bases and their pros and cons.

Our members agree strongly with the concern set out in paragraph 129 of the draft response, as to the treatment of transaction costs. We have on various occasions explained to the Board that bid-ask spreads are just one form of transaction costs and that IFRS 13 is inconsistent in requiring bid-ask spreads to be reflected in the fair value of financial instruments but not any other costs that would need to be incurred to transfer them. Whether an entity is charged a bid-ask spread or a commission, or a mixture of the two, varies with the conventions of a particular market and the practice of the dealer. There would appear to be no conceptual basis for the distinction in accounting treatment.

*Question 9 – Factors to consider when selecting a measurement basis*

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

Response:

Our members agree that in this area the ED is deficient and lacks conceptual content and would concur with the view set out in bold in the EFRAG draft response.

The majority of our members disagree, however, with EFRAG's view, as set out in paragraph 142 of its response, that it may provide the most useful information to measure assets and liabilities at current values in the statement of financial position but to record fair value gains and losses in OCI rather than in profit or loss. The majority of our members accepted reintroduction by the IASB in IFRS 9 of fair value through OCI for debt instruments only as a compromise, because it provides more useful information than fair value through profit or loss. For financial assets that are both held to receive contractual cash flows and for sale and so are not primarily held to realise fair value gains and losses, they would have preferred the use of amortised cost on the face of the statement of financial position as well as the profit or loss account. It is misleading to report fair value gains and losses, even in OCI, which are unlikely to be realised through sale, while the continued use of fair value through OCI for debt instruments was a missed opportunity to simplify their accounting.

Our members agree that fair value information is useful for financial instruments that are not held for trading or managed on a fair value basis, but it is best given through the notes to the financial statements.

*Question to constituents*

*The ED includes different factors to consider when selecting a measurement basis. For example, the ED mentions in paragraph 6.54 that to produce relevant information it is important to consider both how an asset or liability contributes to future cash flows and the characteristics of the asset or the liability. Sometimes these factors could conflict and different conclusions could thus be reached by giving priority to some factors rather than to others. In the paper Profit or loss versus OCI prepared for the July 2015 ASAF meeting, EFRAG examines an approach where the business model will be used when selecting a measurement basis and thus when selecting among different factors.*

*What aspects do you think should help the IASB select a measurement basis when the factors listed in the ED would conflict? Do you think that some factors are more important than others?*

Response:

As already mentioned, our members agree that the ED does not provide sufficient guidance when the listed factors conflict. They agree that the notion of performance needs to be better articulated and that this must relate to the entity's business model. However they are not supportive of the use of OCI as an alternative method of presenting changes in fair value, as already described above.

*Question 10 – More than one relevant measurement basis*

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

Response:

As set out above, the majority of our members do not support the use of different measurement bases for the statement of financial position and the profit or loss account, although some of our members do. The majority believe that fair value through OCI for debt instruments (as required in IFRS 9) is better than fair value through profit or loss if the business model has an objective of both collecting and selling, but provides less useful information than measurement at amortised cost. They note that the development of IFRS 9 showed that different constituents had very different views as to how the business model concept should be applied. While these members agree that the accounting should reflect an entity's performance, they would not support inclusion in the Conceptual Framework of the business model if it is applied in the same way as in IFRS 9.

*Question 11 – Objective and scope of financial statements and communication*

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

Response:

Our members agree with the proposals in the ED.

*Question 12 – Description of the statement of profit or loss*

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

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

*Question to constituents*

*The alternative view of Stephen Cooper and Patrick Finnegan presented in paragraphs AV2 – AV7 of the Basis for Conclusions accompanying the ED, notes that identifying the statement of profit or loss as the primary source of information about financial performance, but without actually defining financial performance or specifying the characteristics of income and expenses that require their presentation in OCI, will leave the IASB in effectively the same position that it is now. In addition, the approach to recycling provides little guidance, because there are no specific reasons presented that would rebut the presumption that recycling takes place (other than the reference to relevance).*

*Mr Cooper and Mr Finnegan think that the conceptual foundation for performance reporting should be based on principles of separate presentation of income and expenses with different characteristics, including, for example, different degrees of persistence and different predictive values, and principles of disaggregation or splitting of items of income and expenses to highlight components that have different characteristics. In general, such disaggregation should be done within profit or loss, either on the face of the statement or in the notes. However, Mr Cooper and Mr Finnegan acknowledge that there may be some circumstances in which disaggregation may be best done by recognising some components of income and expenses in OCI and not in profit or loss. Nevertheless, they believe that the Conceptual Framework should restrict the use of this approach (unless the IASB chooses to depart from the Conceptual Framework) more than the Exposure Draft proposes.*

*What is your opinion about this alternative view?*

Response:

Our members agree that the IASB has not taken the opportunity to define performance and so the ED has not advanced conceptual thinking in this area. However, they do not agree with the view of Messrs Cooper and Finnegan, that a better approach would be to replace the use of OCI with disaggregation within the profit or loss account. As already set out earlier, the majority of our members believe that debt financial assets which are required by IFRS 9 to be recorded at fair value through OCI would better be recorded at amortised cost. They also believe that other uses of OCI, such as for cash flow hedge accounting or to capture foreign currency revaluations of net investments, would be better served by keeping the current accounting approach rather than through disaggregation within the profit or loss account.

*Question 13 – Reporting items of income or expenses in other comprehensive income*

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

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

*Question to constituents*

*The alternative view of Stephen Cooper and Patrick Finnegan presented in paragraphs AV2 – AV7 of the Basis for Conclusions accompanying the ED, notes that amounts could be recognised outside profit or loss, but only if doing so enhances the relevance of the information in the statement of profit or loss in that reporting period. Moreover, they think that this must also hold true for all other periods that may be affected, including periods covered by any potential recycling, and also in aggregate over several periods, including the life of the transaction concerned. To achieve this, the basis of disaggregation should result in a net zero accumulated amount in OCI over the life of a transaction or in aggregate over the life of economically linked transactions. If the cumulative amount in OCI is not zero, then the relevance of the information in the statement of profit or loss is reduced on a cumulative basis, because some items of income and expenses would be entirely omitted from the statement of profit or loss and so the depiction of financial performance in that statement would not be complete. They also believe that the principle they outline would obviate the need to consider explicit reclassification of OCI items (because the disaggregation should naturally result in zero cumulative OCI over the life of the relevant transactions) and would therefore remove a source of complexity and confusion for users of financial statements.*

*Mr Cooper and Mr Finnegan consider that this principle would, in effect, restrict the use of OCI to a limited number of cases in which either (1) a different measurement basis (which, as noted in paragraph BC7.49, should be a meaningful measure and not just an accumulation of amounts recognised in the statement of profit or loss) is judged appropriate for measuring income and expenses in profit or loss, compared with that best suited to the measurement of the asset or the liability in the statement of financial position; or (2) there is a mismatch in the recognition basis for different but economically related transactions.*

*The Discussion Paper A Review of the Conceptual Framework for Financial Reporting presented three concepts to be used when considering whether an item could be reported in OCI. The three items were ‘bridging items’; ‘mismatched remeasurements’ and ‘transitory remeasurements’.*

*Mr. Cooper and Mr Finnegan thus supports two of the three situations for use of OCI envisaged in the Discussion Paper. Mr Cooper and Mr Finnegan believe that further work to develop a conceptual basis for OCI should have built on these.*

*What is your opinion about this alternative view?*

*Do you think the discussion about the three concepts from the Discussion Paper (‘bridging items’; ‘mismatched remeasurements’ and ‘transitory remeasurements’) should be included in the Conceptual Framework?*

Response:

Our members agree that the ED fails to set out a conceptual basis for the use of OCI and does not build on the thinking contained in the discussion paper. However, as mentioned in response to the previous question to constituents, our members would not agree with the views of Messrs Cooper and Finnegan. Also, already set out, our members do not agree with using different measurement bases for the statement of financial position and the profit or loss account, but consider that financial assets that are held both to collect contractual cash flows and to sell should be recorded at amortised cost. Fair value through OCI for such debt financial assets under IFRS 9 is better than fair value through profit or loss, but it is a compromise.

However, there are cases where it is important to retain OCI, for example cash flow hedge accounting and foreign exchange revaluations of foreign operations.

*Question 14 – Recycling*

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

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

Response:

Our members agree that profit or loss is the primary measure of performance and, to the extent that fair value gains and losses are recorded in OCI they should eventually be recycled to profit or loss. This should be more than a rebuttable presumption. The conceptual framework should not attempt to justify the treatment of gains and losses on equity securities in IFRS 9, which was arrived at for pragmatic rather than conceptual reasons. Similarly, our members disagree with the requirement in IFRS 9 that gains and losses due to changes in own credit risk on liabilities recorded at fair value using the fair value option should never be recycled to profit or loss if the liabilities are transferred or settled at fair value and the gains or losses are actually realised.

*Question to constituents: Capital maintenance*

*The IASB has carried forward the material in the chapter on capital maintenance unchanged from the existing Conceptual Framework, except for a limited number of editorial changes. The Discussion Paper A Review of the Conceptual Framework for Financial Reporting preceding the ED noted that the IASB does not plan to consider the chapter on capital maintenance until such time as a new or revised Standard on accounting for high inflation indicates a need for change.*

*EFRAG notes that an argument for removing the chapter until the issue can be further considered could be that the chapter is not well linked with other parts of the proposed new Conceptual Framework (e.g. it is not linked with the objective of general purpose financial reporting including the role of stewardship).*

*Do you think the existing chapter on capital maintenance should be kept in the Conceptual Framework?*

Response:

Our members believe that the chapter should be retained.

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

*Do you agree with the analysis in paragraphs BCE.1–BCE.31 of the ED (summarised in paragraphs 178 - 181 above)? Should the IASB consider any other effects of the proposals in the Exposure Draft?*

*Question to constituents*

*Do you agree with the status of the Conceptual Framework (see paragraphs 178 - 179 above) and that the review should not automatically result in any changes to Standards?*

Response:

Our members agree that changes to the framework should not automatically result in any changes in standards.

*Question 16 – Business activities*

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

Response:

As already set out, while our members agree that the business model has a role to play in helping to define performance, they do not agree with how it was applied in IFRS 9 and note

that different parties have different views as to what ‘the business model’ actually means and how it should be used. They have no desire to reopen IFRS 9, but note that the idea of the business model would need more analysis and debate.

*Question 17 – Long-term investment*

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

*Question to constituents*

*Do you agree that:*

- *The ED provides sufficient guidance on how to reflect long-term investment business models;*
- *The ED contains sufficient and appropriate discussion of primary users and their information needs, and the objective of general purpose*

Response:

Our members believe that the ED provides sufficient guidance on how to reflect long-term investment business models and contains sufficient and appropriate discussion of primary users and their information needs. The accounting should reflect the ‘performance’ of the entity but, once this is achieved, there should be no need to give any further special significance to long term investment.

*Question to constituents*

*Are there any of the discussions, ideas and reflections included in the Discussion Paper A Review of the Conceptual Framework for Financial Reporting (issued by the IASB in July 2013), that are not reflected in the ED, you think should be included in the Conceptual Framework?*

Response:

When the IASB published its Discussion Paper on Dynamic Risk Management, the concern was expressed that the idea of hedging changes in the fair value of an entity’s equity would require modification of the Conceptual Framework. Our members agree that that the Conceptual Framework need not be modified at this time in this manner, but would not want future progress on the accounting for macro hedging activities to be constrained by what is written in the Framework. It would be helpful if the Conceptual Framework recognised that this issue needs further consideration, which should be undertaken when developing the future standard, in the same way as the ED deals with the classification of equity instruments.