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Mr H. Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC 4M 6XH
UNITED KINGDOM

commentletters@ifrs.org

Dear Mr Hoogervorst

ED/2015/3 “Conceptual Framework for financial reporting”

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. The G100 is pleased to provide comment on this ED.

The G100 supports the priority given to the Conceptual Framework project (framework) on the IASB's agenda. An updated generally agreed framework will provide an essential discipline and accountability for the IASB in setting accounting standards, discourage ad hoc responses to vocal pressure groups and establishes a framework for preparers to determine appropriate accounting treatments in the absence of a standard and other authoritative literature. The G100 strongly believes that where the IASB, in setting a standard, departs from an outcome consistent with the framework it should explain its reasons for doing so.

Q1. 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 information? Why or why not?*

- a. The G100 agrees with the proposal to clarify the importance and role of management stewardship and its assessment by users as an objective of financial reporting. This has been emphasised in our previous submissions in relation to the conceptual framework.
- b. We also support the proposal to re-introduce discussion of the prudence in making accounting and reporting judgements. However, we believe that the discussion of prudence should emphasise that the exercise of caution is not at the expense of neutrality and is clearly distinguished from the application of conservatism.
- c. The G100 considers that it is imperative that the framework is based on reflecting the economic substance of transactions and events and not its legal form. However, we acknowledge that while legal form may be part of the economic substance it should not, of itself, drive the accounting.
- d. The G100 believes that further guidance is useful in respect of dealing with measurement uncertainty. We consider that further explanation is needed to support the proposal to treat measurement uncertainty as an aspect of relevance.
- e. The G100 agrees that the treatment of relevance and faithful representation as the two fundamental, qualitative characteristics is appropriate.

Q2. Description and boundary of a reporting entity

Do you agree with:

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

Why or why not?

The G100 considers that the definition of a reporting entity is a standards level issue and that the framework should provide a broad description of a reporting entity and its boundaries. We agree that a reporting entity may not be a legal entity – to do so would be an extreme limitation of the concept.

Q3. Definitions of elements

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

- a. *an asset, and the related definition of an economic resource;*
- b. *a liability;*
- c. *equity;*
- d. *income; and*
- e. *expenses?*

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

- a. **Asset:** The G100 agrees with defining an asset as economic resource controlled by the entity as a result of past events and an economic resource as a right that has the potential to produce economic benefits.
- b. **Liability:** The G100 agrees with the definition of a liability.

- c. **Equity:** The G100 agrees with the proposal to retain the existing definition of equity.
- d. **Income:** The G100 agrees with the definition of income.
- e. **Expenses:** The G100 agrees with the definition of expenses.

Q4. 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?

The G100 has concerns about the description of 'present obligation' and how that might be interpreted in practice. The use of the criterion 'no practical ability to avoid' is capable of significantly different interpretations (compare the views of an environmental activist with those of an investor) and the potential to introduce a further dynamic into determining the existence of a liability. For example, it is not clear what occurs in those situations where there is economic dependency or economic compulsion.

Q5. 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.

The G100 suggests that the framework could provide more helpful guidance on the analysis of executor contracts and identifying the unit of account.

Q6. 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?

The G100 agrees with the criteria for recognition.

Q7. 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?

The G100 believes that control should be the basis for determining whether an element should be derecognised and not the reliance on the passage of risks and rewards as a separate principle. Rather, it is a factor to be considered in determining whether control has passed. As such, derecognition should mirror the recognition criteria as otherwise asymmetrical outcomes may occur.

Q8. 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?*

The G100 considers the approach to measurement appears to be more of a description of current measurement practices than a statement of principles upon which measurement decisions should be based.

As outlined in our previous submission, conceptually, the existence of a single basis of measurement and related concepts of capital and capital maintenance is attractive and would be an integral component of the vision of ideal corporate reporting in a robust and forward looking conceptual framework. Departures from the conceptual model may occur in individual standards for a variety of reasons and should this occur the standard-setter would explain the reasons for that departure. However, the G100 is not satisfied that the present approach would consistently provide relevant and reliable information to the users of financial statements.

Accordingly, on the grounds of practicality, we agree with the preliminary views in the DP that different measurements for different items can satisfy the objectives of faithful representation and reliable measurement while providing relevant information to users including assessments of stewardship. However, that should not disguise the fact that this is not an ideal situation for a conceptual framework.

Q9. 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?

See our response to Q8.

Q10. More than one relevant measurement basis

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

See our response to Q8.

Q11. 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?

The G100 agrees with the objective and scope of the financial statements and communication. However, it is unclear how the outcome of the present work on the disclosure initiative and reporting of performance will impact the development of the framework. The G100 considers the IASB's work on developing a disclosure framework should be given the highest priority as this work has the potential to address concerns about the volume, detail and relevance of disclosures and better communicate performance to users.

Q12. Description of the statement of profit and 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 suggestions for that definition.

The G100 suggests that in describing the statement of profit and loss it is important to understand the objective of the statement. In order to do so a definition of profit or loss should be provided.

The G100 agrees that a total or subtotal of profit or loss should be presented because it is an item, but not the only item, which is central to a user's assessment of the performance of the company including the stewardship of management. However, this hinges on what is included in the measurement of profit or loss and how it is distinguished from other comprehensive income which is not a defined concept.

Q13. 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?

The G100 has previously supported recycling of some items principally on grounds of practicality. However, if the measure of profit or loss is truly the bottom line measure and the items included in OCI are already recognised in profit and loss of a period, recycling in a subsequent period has elements of double counting and undermines the articulation of the financial statements. Making a distinction between profit and loss (presumably relating to operating activity) and other comprehensive income (valuation adjustments etc), creates a tension as to an appropriate classification of items. The ED does not define OCI or develop a conceptual basis for identifying items of OCI and determining the basis of their treatment nor does it effectively explain the objective for making a distinction between items of profit and loss.

Q14. 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?

The G100 agrees that if OCI as described is retained in the framework the rebuttable presumption is an acceptable approach on pragmatic grounds and would enable those entities whose business model requires a separation of fair value changes in underlying investments and the return on those investments not to recycle these items.

Q15. Effects of the proposed changes to the Conceptual Framework

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

The G100 agrees that the framework should not override a standard and that any changes to standards resulting from an updated framework should be the subject of a separate due process.

Q16. Business activities

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

The G100 considers that further work and understanding of the business model needs to be undertaken before it is formally reflected as an approach in the framework. In the absence of that work the G100 considers that the discussion in the ED is appropriate.

Q17. Long-term investment

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

The G100 agrees with the IASB's approach and that the current discussion meets the needs of investors including long-term investors. In this regard the disclosure initiative project and that on reporting non-IFRS information with the prospect of more flexibility in presentation will presumably address any shortcomings that are seen as impediments to better communication.

Q18. Other comments

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

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

No further comments.

Yours sincerely
Group of 100 Inc



Neville Mitchell
President

