14 January 2014

IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir/Madam,

Re: A Review of the Conceptual Framework for Financial Reporting

The Polish Accounting Standards Committee (PASC) is pleased to respond to the request for comments on the *Discussion Paper "A Review of the Conceptual Framework for Financial Reporting".*

Generally, PASC supports IASB efforts to improve the Conceptual Framework. PASC has participated in the IASB Agenda Consultation and expressed the view that the Conceptual Framework project should have a high priority. Therefore we welcome that the IASB proposed a comprehensive approach towards this issue.

Our comments which are enclosed in the Annex are not unanimous in some cases. However, we present those diverging comments hoping that they will be of value for the IASB when considering the responses.

Yours sincerely,

Joanna Dadacz

Chairman

Polish Accounting Standards Committee

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Annex

Appendix H

Summary of questions for respondents

Section 1 - Introduction

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

PASC has doubts with respect to IASB being identified as the main recipient of the *Conceptual Framework*. In particular, a more precise indication of the role of *Conceptual Framework* for the preparers of financial statements should be provided. It is important in context of provisions of IAS 8, as well as for hereto unspecified role of the *Conceptual Framework* in EU legal order.

PASC agrees with EFRAG as to lack of justification for introducing parts of *Conceptual Framework* addressed only to IASB.

PASC also has certain concerns with respect to the proposal allowing IASB to depart from the provisions of the *Conceptual Framework* when issuing a specific standard. It seems, that the need to depart will result in doubts as to the quality and consistency of provisions contained in the *Conceptual Framework*. However, if including such a possibility to depart will be necessary, a clear justification should be compulsory, including an indication as to which provisions of the *Conceptual Framework* were deemed more important (e.g. providing more useful information).

PASC, same as EFRAG, believes it is necessary to review compliance of existing IFRS with the new *Conceptual Framework*.

Section 2 Elements of financial statements

PASC generally supports the initial position of IASB in scope of:

- elements of financial statements, i.e. proposed definitions of an asset, a liability, economic resource and role of uncertainty in the aspect of assets and liabilities,

- elements of profit and loss account, other comprehensive income, cash flow statement and changes in equity, and

- criteria for recognition and derecognition of assets and liabilities in the balance sheet.

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?

Position of PASC with respect to proposed definitions of assets and liabilities is not unanimous. Most of the members of PASC do agree with proposed definitions of assets and liabilities, thus sharing IASB's opinion that the underlying nature of an asset or liability is the economic resource or obligation, rather than eventual inflow or outflow of economic benefits, and that the asset or liability must be capable of producing inflow or outflow of economic benefits, which do not have to be certain. An argument in favor of such an opinion is that the capability for something, in this case bringing economic benefits, is an attribute (an intrinsic feature of an object), which means that such capability may be used, but, for various reasons, it doesn't have to be. Some of PASC members believe it is necessary to leave a reference to, respectively, inflow or outflow of economic benefits in the definitions.

Moreover, according to some members of PASC, it would be desirable to expand the proposed set of definitions so as to include definitions of an obligation and economic benefit. While the notion of "economic resource", key to definition of assets, has been defined, the *Conceptual Framework* lacks a definition of an "obligation", which is key for definition of liabilities. Definition of the notion of "economic benefit" would complete the set of definitions provided in the *Conceptual Framework*. Such supplementation seems important for using the notions of assets and liabilities in a manner that is beyond any doubt.

Some of the PASC members pointed out, that the definitions of "economic resource" and "economic benefits" should be formulated in such a way as to exclude recognition of assets embodying economic benefits produced exclusively by the reporting entity (e.g. definitions should exclude recognition of own shares, or shares of mother company, whose only investment is investment in the reporting entity, as assets)

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?

As shown in response to Question 2, most members of PASC share IASB's opinion, that definitions of assets and liabilities should not include the information that inflow or outflow of economic benefits is "expected, and that the *Conceptual Framework* should not identify a probability threshold for cases, in which there is an uncertainty as to the existence of an asset or liability, and therefore the reference to probability, currently present in recognition criteria, should be removed. However, some believe that currently existing reference to probability should remain in the recognition criteria.

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?

PASC believes it would be helpful if the *Conceptual Framework* identified elements of statement of profit and loss, statement of other comprehensive income, cash flow statement and statement of changes in equity as elements of financial statements.

According to some of PASC members, it is necessary to maintain balance between defining elements of financial situation and elements of activity outcomes (in their opinion, *Conceptual Framework* seems to be overly focused on the elements of financial position, omitting such elements as revenues or costs). At the same time, some of PASC members point out, that a more precise definition of contribution and distribution of equity, as well as clear distinction between these and costs and revenues would be helpful for practical application of IFRS. Currently, none of the standards contains such distinction, which results in some problems in practice (e.g. recognition of difference to fair value of loans inside the group, treatment of some shareholder benefits as expenditures or equity reduction). Some of PASC members have pointed out, that a proper definition of equity contribution could, in practice, enable better conceptual explanation of share based benefits accounting.

Section 3 Additional guidance to support the asset and liability definitions

Question 5

Constructive obligations are discussed in paragraphs 3.39-3.62. The discussion considers the possibility of narrowing the definition of a liability to include only obligations that are enforceable by legal or equivalent means. However, the IASB tentatively favors 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?

PASC agrees with IASB's preliminary opinion on maintaining the existing definition of liabilities. Additional guidance is necessary, allowing to discern legal obligations, constructive obligations and obligations resulting from economic compulsion.

Question 6

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

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

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

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

The IASB has tentatively rejected View 1. However, it has not reached a preliminary view in favor 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.

PASC leans towards opinion 2. Some of PASC members point out, that future actions of the entity should not have an impact on “current” obligation, i.e. its recognition in the balance sheet, especially since, according to IASB’s preliminary opinion, the entity should recognize all assets and liabilities, unless premises referred to in 4.25 occur.

Question 7

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

PASC has no additional comments.

Section 4 Recognition and derecognition

Question 8

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

(a) recognizing 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?

PASC shares IASB's opinion, expressed in pt (b). Opinion expressed in pt (a) is not clear, hence many members of PASC have expressed concerns with respect to completeness of recognition of assets and liabilities.

Question 9

In the IASB's preliminary view, as set out in paragraphs 4.28-4.51, an entity should derecognize 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 recognize 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?

PASC leans towards approach (b), which has the advantage of simplicity and clarity.

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

Question 10

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

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

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

  (i) obligations to issue equity instruments are not liabilities; and

  (ii) obligations that will arise only on liquidation of the reporting entity are not liabilities (see paragraph 3.89(a)).

(c) an entity should:

  (i) at the end of each reporting period update the measure of each class of equity claim. The IASB would determine when developing or revising particular Standards whether that measure would be a direct measure, or an allocation of total equity.

  (ii) recognize 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?

PASC appreciates IASB undertaking considerations about definition of equity as well as distinguishing liabilities from equity instruments. We believe this is the right time to identify and attempt to resolve, on a conceptual level, problems accumulated as a result of divergent and unclear basis adopted for equity in current IFRS.

Specifically, requirements in scope of equity in IAS 32 *Financial Instruments: Presentation,* despite complexity and detail of regulation, do not allow clear approach to many issues, occurring in practice of reporting entities. Adding to overall difficulty are exclusions from IAS 39 *Recognition and Measurement* and from IFRS 9 *Financial Instruments* of own financial instruments of the entity, such as meet the definition of an equity instrument provided in IAS 32, and as a result, also exclusion of application of IFRS 13 *Fair Value Measurement*, since this Standard applies only when another standard requires such measurement. There is a separate problem with IFRS 2 *Share-based Payment,* requirements of which are based on specific assumptions in scope of recognition, measurement and presentation of equity instruments, which create a concept different from the one underlying IAS 32.

PASC generally supports the preliminary opinion of IASB in scope of equity and distinguishing liabilities from equity instruments.

Detailed responses to questions:

Question 10a

We agree with retaining the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.

Definition of equity adopted in current *Conceptual Framework* and proposed in the DP remains directly connected with the legal concept of shareholders claims (equity claims) to resources remaining after creditors have been satisfied or secured. It is the residual, i.e. final, status of the assets presented in the financial statements prepared as of the day preceding distribution of said assets between the shareholders (interest holders).
Some of the members of the Committee have pointed out, that full compliance between legal concept of residual assets and concept of equity adopted in accounting can be achieved only upon completion of the company's liquidation process, i.e. when there is no possibility of continuing as a going concern and after final decisions as to unrecognized assets and liabilities. Therefore, members of the Committee have observed, that it is not clear whether "assets of the entity" referred to in the definition of equity should be understood in a broad sense, i.e. as both recognized and unrecognized assets (so in accordance with the definition of assets considered in Section 3 of the DP), or narrowly, i.e. only as recognized assets.

During the discussion it was emphasized, that when discussing equity one must not forget that in many jurisdictions it is an area, which throughout the company's life is subject to very strict legal regulation, intended to protect the rights of the entity's owners (i.e. holders of financial instruments). In Poland, for example, the law provides characteristics for various types of interests depending on type of company, determines conditions for shares issue, including basic conditions for determining issue price, it also dictates, what classes of equity can be created, what transfers between these classes are acceptable and which classes of equity can be distributed. Therefore, the conclusion which supports retaining the equity definition which is close to the concept adopted in companies law in the *Conceptual Framework* also means that the Committee supports the "proprietary approach".

Question 10b
The Committee did not take a position with respect to including in the *Conceptual Framework* a statement, that IASB should use the definition of liabilities in order to distinguish liabilities from equity instruments.
Members of the Committee decided, that it is necessary for IASB to decide, whether the leading approach in discussions about equity shall be the "entity approach" or the "proprietary approach".
The Committee is also not sure, that it is possible to assume without considering additional circumstances that the obligation to issue equity instruments and obligations arising only in case of liquidation of the reporting entity are not liabilities.

Some of the members of the Committee were not convinced, that the actual need for discussion on how to distinguish liabilities from equity comes down to distinguishing liabilities, as understood in Section 3 of the DP, from equity instruments as defined in IAS 32. They have emphasized, that definition of equity instruments adopted in IAS 32 stems directly from the definition of equity, which is proposed to be retained in the DP, and is narrow enough that it cannot be deemed sufficient to describe potential secondary class instruments which do not meet the definition of liabilities. Moreover, the method applied in IAS 32 of

determining what is an equity instrument, based on a statement that the given instrument is not a financial liability (e.g. options on shares), is based on specific, narrow conditions (e.g. 'fixed number for fixed amount'). Providing specific and detailed conditions for distinguishing liabilities from equity instruments in *Conceptual Framework* does not seem to be the right solution.

Question 10c

The Committee does not support the proposal to update the measure of primary and secondary equity claims at the end of reporting period.
The Committee is against recognizing updates to measures of classes of equity claims as a transfer of wealth.
Members of the Committee have pointed out, that proposed solutions would decrease clarity of financial statements and as a result may lead to lack of understanding of actions undertaken by the entity in scope of equity.
Members of the Committee disagree with the statement in par. 5.16 (a) of the DP: „IFRS generally does not permit entities to update measures of equity instruments **through profit or loss**. There is no existing obstacle to updating those measures through equity (and reporting the resulting changes as transfers within the statement of changes in equity)".
In the opinion of the Committee, current IFRS do not refer to measurement of equity at all (e.g. IAS 39, IFRS 13 exclude own equity instruments from the scope of the standard).
The Committee has serious concerns whether measurement of secondary equity instruments and recognition of such as change in value of primary equity instruments is in accordance with proposed concept of equity as residual value of assets. It was pointed out, that measurement of an option on the entity's shares, issued by the entity itself, has no impact on measurement of the entity's assets, or on option strike price, i.e. does not change the expected amount of inflow from shares issue. In other words, a change in fair value of the option has no impact on the entity's equity creation.

Question 10d
In the opinion of the Committee, the proposal to treat most subordinated class of instruments as if it were an equity claim, even with suitable disclosure, cannot be deemed an appropriate solution.
Members of the Committee have pointed out, that even the e most subordinated instruments usually meet the definition of liabilities. As a result, recognizing such instruments as equity claim would be in conflict with both the definition of equity as residual assets (proprietary approach) and the proposal of approaching equity as equity instruments not meeting the definition of a liability.
In Poland, the problem of entities without primary equity claims in statement of financial position pertains to partnerships, branches of foreign enterprises, open pension funds and open end investment funds. Pension funds and open end investment funds, in their statements of financial position, following the definition set forth in the law, as primary equity claim report so called paid-in capital and paid-out capital, i.e. amounts paid in by unit holders and amounts paid out upon unit redemption. In partnerships, primary equity claim is reported as equivalent of assets brought in by the interest holder. Branches of foreign enterprises do not report any primary equity claims, as resources provided by parent company are financed by internal liabilities of the branch towards the parent company. Therefore, in practice of Polish entities which did not issue primary equity instruments, the entities were allowed to determine what they consider equity (partnerships, branches of foreign enterprises), otherwise legal regulations provide what equity is.
Members of the Committee have expressed the view, that in case of assuming, in the *Conceptual Framework*, the proprietary approach as the basis for definition of equity, a good solution would be to allow owners of entity to indicate what they consider equity.

Section 6 Measurement

Comments pertaining jointly to Questions 11-14:

PASC generally supports the preliminary opinion of IASB in scope of: objectives of measurement, differing measurements applied for initial recognition of assets and liabilities and subsequent measurements, considering the justification for selection and application of specific measurements taking into consideration their importance and impact on future cash flows, limiting the number of measurements possible for any given asset or liability.

PASC does, however have certain doubts as to:

a) whether it is reasonable to apply different criteria for selection (Q11 d) of basis for measurement of assets (future cash flows) and liabilities (settlement or fulfillment). In fact, in both cases measurement of assets and liabilities will have the same result in the future: impact on cash flows (with same simplification as presented in par. 6.57). So why not make the future cash flows the determining factor for relevance of measurement (cf. par. 6.17)?
b) whether it is reasonable to differentiate measurement methods from the perspective of statement of financial position and profit or loss, or other comprehensive income (par. 6.35 b)? We do agree, that selected measure should take into consideration both the impact of the given item on financial position and profit (loss) or other comprehensive income (par. 6.35 c), but we are concerned about assumed application of different measurements for recognizing an item in statement of financial position and in profit or loss statement and other comprehensive income (par. 6.76 b and Section 8). In the assumed solution, the difference in applied measurements would be recognized in other comprehensive income items. Such a solution – leaving aside the discussion on why would such difference be recognized in other comprehensive income – would make the process of preparing financial statements significantly more time-consuming and costly, predominantly in the financial aspect, but also – we believe – it will contribute to users of financial statements questioning their usefulness. We support rather the formula of disclosing the results of applying alternative measures in the notes to financial statements (par. 6.76 a).

Question 11

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

(a) the objective of measurement is to contribute to the faithful representation of relevant information about:

  (i) the resources of the entity, claims against the entity and changes in resources and claims; and

  (ii) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

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

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

(d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:

  (i) for a particular asset should depend on how that asset contributes to future cash flows; and

  (ii) for a particular liability should depend on how the entity will settle or fulfil that liability.

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

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

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

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.

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.

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 (i.e. the asset or the liability is highly leveraged).

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

Question 15

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

Section 7 Presentation and disclosure

Comments pertaining jointly to Questions 16-18:

PASC generally supports the preliminary position of IASB with respect to scope and guidance pertaining to presentation and disclosures.

PASC believes, that in developing the form of disclosures in the standards, IASB should indicate:

c) Disclosures enabling the users to obtain information about key success factors and threats in context of implementation of adopted strategy (linked to disclosures in management comments).
d) Disclosures enabling the user to obtain information specific for the entity operating under a specific business model.
e) Reduction of repeats of the same information in various financial statements to a minimum.

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.*

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?

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?

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

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?

PASC believes, that it should be obligatory to present profit/loss as a separate financial statement or as subtotal of OCI. Following arguments support that position:

1. “Attachment” of users of financial statements to this measure of enterprise’s performance. For many investors, profit/loss is a starting point for calculation of other values (e.g. EBITDA) or ratios (e.g. profitability). Financial result may also constitute a basis for evaluation of the entity’s ability to pay dividends, or be helpful for assessing the management’s performance of duties.

2. Maintaining comparability of information over time. Profit/loss are useful in evaluating development trends of an enterprise. Based on performance in those categories in the past, conclusions can be drawn as to possible economic benefits to be achieved in the future.
3. Financial result is commonly used to compare enterprises within the same industry, or between industries, as a measure of return on invested capital.

Question 20
The IASB's preliminary view that the *Conceptual Framework* should permit or require at least some items of income and expense previously recognized in OCI to be recognized subsequently in profit or loss, i.e. 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?

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.

Questions 20 and 21

PASC believes, that the main problem which requires resolution is indicating criteria, which will allow unequivocal definition of income and expense items to be recognized in OCI. This will also answer the question of what is the economic substance of profit/loss disclosed in Statement of Profit or Loss. Currently there is chaos in this area, resulting from various solutions adopted in individual standards. The role of the *Conceptual Framework* is to bring this situation into order, so that subsequent standards are built on cohesive foundations rather than remain a set of individual cases. Only based on that it will be possible to decide, which items should be recycled and recognized in Statement of Profit or Loss.

In answering the question as to purpose of recycling items recognized in OCI for recognition in Statement of Profit or Loss, Committee members were divided into two groups, based on their position.

In the opinion of one group, recycling ensures comparability of financial statements of entities, which have adopted different measurement bases (e.g. historic cost vs fair value) for the same item of assets/liabilities. This makes recycling necessary, however it should be used only when the moment of recycling can be precisely pinpointed (e.g. the amount subject to recognition in Statement of Profit or Loss is the amount of re-measurement to fair

value of a hedging instrument, which occurs upon execution of hedged transaction). This group of Committee members is in favor of a broad approach to recycling, including all three cases (bridging items, mismatched measurements and transitory remeasurements). It seems, however, that final resolution of this issue will be possible only after the criterion for recognition of income and expense items in OCI is determined.

In the opinion of the second group of Committee members, recycling makes it more difficult to understand the financial statement, as the same item is recognized three times – once in OCI, then again when de-recognized from OCI and third time when recognized in Statement of Profit or Loss. This position is justified, especially in a situation, when IASB is not able to develop a common position with respect to criteria for items to be recognized in OCI vs directly in Statement of Profit or Loss. In absence of recycling, this issue loses importance. Moreover, lack of recycling increases the importance of comprehensive income as a final measure of the enterprise's performance. In the opinion of those PASC members, in case of departing from recycling of items from OCI to Statement of Profit or Loss, the problem of cash flow hedge accounting should be resolved by allowing (in this specific situation) creation of an additional asset or liability for: firm commitment / highly probable transaction.

Section 9 Other issues

Question 22

Chapters 1 and 3 of the existing Conceptual Framework

Paragraphs 9.2-9.22 address the chapters of the existing *Conceptual Framework* that were published in 2010 and how those chapters treat the concepts of stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the *Conceptual Framework* highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters.

Do you agree with this approach? Please explain your reasons.

If you believe that the IASB should consider changes to those chapters (including how those chapters treat the concepts of stewardship, reliability and prudence), please explain those changes and the reasons for them, and please explain as precisely as possible how they would affect the rest of the *Conceptual Framework.*

We agree with the approach. We do not suggest that the IASB should change those chapters, although we would encourage that the notion of healthy scepticism/ the notion of caution should always be present when reporting financial performance.

Question 23

Business model

The business model concept is discussed in paragraphs 9.23-9.34. This Discussion Paper does not define the business model concept. However, the IASB's preliminary view is that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities.

Do you think that the IASB should use the business model concept when it develops or revises

particular Standards? Why or why not?

If you agree, in which areas do you think that the business model concept would be helpful?

Should the IASB define 'business model'? Why or why not?

If you think that 'business model' should be defined, how would you define it?

We think that the business model concept should be used when developing or revising particular Standards. We believe it could be also useful as part of a broader discussion of the performance reporting model. Nevertheless we acknowledge the difficulties associated with the concept and different meanings associated with it e.g. whether and how the intentions that the management might have with respect to its business impact the reporting. There is a risk that depending on how the concept of the business model is used in reporting it might hinder comparability of reporting.

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 appreciate that the unit of account area is a challenging one. Whilst developing a generic model for unit of account determination might be difficult we are of the view that it would be useful for the revised *Conceptual Framework* either to commit to address unit of account question in each of the individual standards or to include a rebuttable presumption about the unit of account and acknowledging that there may be exceptions in individual standards that would elaborated upon. Also the revised *Conceptual Framework* would benefit from guidance on how to approach a unit of account question i.e. when items should be individually analysed and when portfolio approach might be a correct one.

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?

We agree with the identified situations in which the going concern assumption is relevant. Nevertheless we would encourage also exploring the question when the going concern assumption is not appropriate or relevant. Also in practice, the going concern issue does not just arise in the case of entities facing bankruptcy, but also for limited life entities (e.g. put into liquidation or operating on the basis of limited extractive assets) hence it would be useful if the *Conceptual Framework* included some discussion how the financial statements should be prepared in situations when going concern assumption is not relevant.

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 are of the view that the revised *Conceptual Framework* should include a conceptual discussion of capital maintenance. The concept of capital maintenance is an important and difficult subject linked to any examination of performance reporting including challenges related to other comprehensive income (OCI). Hence we would expect it to be explored rather than keeping it largely unchanged until such time as a new or revised Standard on accounting for high inflation indicates a need for change.