



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



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November 19, 2015

Re : ED/2015/3 Conceptual Framework for Financial Reporting

We welcome this opportunity to respond to the Exposure Draft *The Conceptual Framework for Financial Reporting* (the ED).

We are pleased to note the improvements that have been made in this version of the Framework compared with that of the Discussion Paper but think that there are still areas where further improvements can be made:

- We welcome the reintroduction of the notions of stewardship and prudence and substance over form. However we think that further improvements could be made to define the roles of each of these. In our detailed response we make some suggestions about what we think could be added.
- We find the discussion of measurement uncertainty and the trade-off between relevance and measurement uncertainty both confusing and ill-conceived. In our view, the reintroduction of the characteristic of reliability (instead of faithful representation) would be helpful in this area.
- The revisions to the measurement chapter have made this chapter clearer.
- We welcome the conclusion that income and expenses included in the statement of profit or loss are the primary source of information about an entity's financial performance. However, as with the Discussion Paper, we think that contrasting definitions of the usage of the profit or loss statement and OCI would enhance the usefulness of the Framework. In addition, we are concerned by the way in which the objective and scope of financial statements has been

drafted, insomuch as it appears to imply that the Statement of Cash flows has been downgraded in its importance.

- We have a persistent major concern with the articulation of the definitions of the elements of assets and liabilities and the recognition criteria. Indeed, we think that the articulation of these two essential parts of the recognition process will provide no clear guidance to the Board when it comes to setting standards and could either result in the recognition of all items which satisfy the definition of assets or liabilities, irrespective of whether recognition is useful or practical, or lead to inconsistent recognition decisions between standards. Our preferred approach to resolving this issue would be to reintroduce a threshold for recognition.

We think that the ED does not deal adequately with the relevance of the business model, which in our view could be relevant to many, if not all, areas of financial reporting. Rather than mentioning the potential relevance of the business model/activity in specific sections of the Framework, there should be a general requirement for the Board to consider systematically whether the type of business activity could have an impact on the area under review. This would not mean that different business models would always be catered for, but would ensure that the question would always be considered.

- Finally, we think that the ED is lacking in tools which will help the Board deal with some of the issues which are currently of concern:
 - The application of the equity method (consolidation or measurement);
 - NCI puts, variable consideration for acquisitions and other assets (the appropriate opposite entry for a variation in a financial liability);
 - Rate-regulated industries (the unit of account);
 - The choice of a discount rate; and
 - The use of OCI.

Our responses to the individual questions posed in the ED are set out in Appendix 1.

Yours sincerely,

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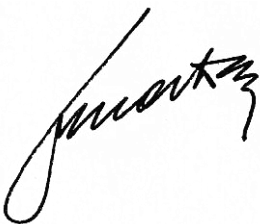
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Question 1 – Proposed changes to Chapters 1 and 2 - Do you support the proposals:

(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;

We welcome the reintroduction of stewardship in the chapter of the Conceptual Framework dealing with the objective of general purpose financial reporting. However, we do not think that the way this notion has been integrated makes its purpose sufficiently clear.

In calling for the reintroduction of this objective we characterized its purpose as being to enable users to judge the success of management in fulfilling its obligations and managing the resources of the entity entrusted to its care. In our view, the concept of stewardship is consistent with the recognition of financial reporting as a key element of communication between the management of the entity and the external users of the entity’s financial statements. For communication to be truly effective, it is necessary that the financial reporting is consistent with the actual business model of an entity and that it represents appropriately specific management decisions. In other words, the choice of specific accounting models or presentation should not create a distortion between the financial reporting and the business activities of the entity. In this respect, considering management to be a user would contribute to the reduction of non-gaap measures.

We agree with the statement in paragraph 1.6 of the ED that general purpose financial reports cannot provide all the necessary information that users might require. Consequently, we agree that it is relevant that the IASB explains how the objective of stewardship can be achieved only partially through financial reporting. Moreover, although the objective of stewardship is now part of the Conceptual Framework, we think that it is important that this is not deemed to give the IASB any mandate to broaden the scope of its sphere of action to other aspects of financial communication or governance outside that which is currently understood to be general purpose financial reporting.

(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;

We welcome the reintroduction of an explicit reference to the notion of prudence. Concerning its meaning, we believe that the aim of the principle of prudence is to ensure that cash flows (negative or positive) reported in the financial statements, are the most predictable possible - that is, the most likely of occurring. The concept of prudence obviously calls upon the judgment of management but it may be appropriately applied if the objectives pursued are properly defined.

We believe that prudence should, and can be applied consistently to all items reported in the financial statements, without creating an excessive imbalance between assets (gains) and liabilities (expenses). The objective of the use of prudence indeed is not to maximise liabilities / expenses and to limit the assets / gains, but it should result in the recognition in the financial statements of what it is reasonable to expect as future cash flows. It is, in our opinion, no more prudent to recognise liabilities with a low likelihood of generating cash outflows than it is to recognise unrealised gains on financial assets, with little chance of being realised.

However, we believe that the IASB should not exclude the possibility of making use of the notion of “asymmetric prudence” as it could be useful in some cases when it comes to defining principles at a standard level. This fact is acknowledged in the basis for conclusion (BC 2.14) and could usefully be reintroduced in the framework itself. We also believe that prudence is a quality that supports

reliability as does neutrality, since both these notions are complementary rather than mutually exclusive and should together provide an equilibrium. As explained in our response to question 1(e), we think that reliability should be reintroduced as a fundamental qualitative characteristic.

We also believe that the conceptual framework must explicitly state that prudence should apply not only to measurement but also to recognition and presentation.

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

We agree with this proposal. In addition, we believe that the notion should be better developed and explained as some constituents may have acquired a different understanding of the predominance of economic phenomenon over legal form from some recent developments. One recent example is the new standard dealing with joint arrangements that could be perceived as relying much more on legal form than on the economic substance and purpose of joint arrangements.

(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

Please read the response to this question in connection with the response to question 1(e).

We agree that uncertainty is a key factor to be dealt with in establishing financial reporting. However, we believe that its effect is not restricted to measurement issues and it should also be considered in decisions about recognition and, perhaps, presentation.

However, we find the way measurement uncertainty is described in paragraphs 2.12 and 2.13 as being a factor which affects, even to the point of negating, the relevance of financial information, to be confusing. We are bemused by the statement that “if measurement uncertainty is high, an estimate is less relevant than it would be if it were subject to low measurement uncertainty”. We think that relevant information is always relevant irrespective of the degree of measurement certainty. What changes is the reliability of the measurement and hence the usefulness of the information and the way it can be used.

Actually, we believe that uncertainty should not be assessed within the relevance characteristic but rather should be assessed between relevance and reliability in order to optimise the usefulness of information provided. Indeed, we support the (EFRAG) view which considers that ‘relevance’ and ‘reliability (faithful representation)’ (including measurement uncertainty) are two separate and key components of ‘useful’ as in the pre-2010 Conceptual Framework, and that this better facilitates the two-step approach and trade-off required when deciding that certain items should not be recognised in the financial statements (but disclosed in the notes).

Finally, still concerning uncertainty, we disagree with the idea that almost any estimate could qualify as a faithful representation, provided that “the reporting entity has properly applied an appropriate process, properly described the estimate and explained any uncertainties that significantly affect the estimate” as is stated in paragraph 2.20 of the ED. Reliability is, in our view, an important criterion for an estimate.

(e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information? Why or why not?

We think that the proposed articulation of the fundamental qualitative characteristics (incorporating the post-2010 amendments and the proposals of the ED) is much less clear than it was in the pre-2010 Conceptual Framework, and is incomplete.

Our approach would be to consider that, to be useful, all information must be “relevant” and “reliable” (or another term with the same meaning provided that it is appropriately defined). The way the information is used will depend on the extent to which the information possesses these two characteristics:

- If the information is not relevant, then it should be used neither in the financial statements nor in the notes.
- If the information is relevant, then depending upon the degree of measurement uncertainty it should be used
 - In the financial statements if sufficiently reliable (with a secondary distinction between the net income and OCI); or
 - In the notes to the financial statements, if less reliable.

Our understanding of relevance is as follows: we agree that relevant information is “capable of making a difference in the decisions etc. ...”; we also agree that it has “predictive value, confirmatory value or both”. We think that to achieve this objective it is indispensable the business model be taken into account in all the phases of the preparation of the reporting package (see our response to Question 16).

It seems to us as well that the principle of the precedence of “substance over form” is another pillar in support of relevant information, since it ensures that the substance of an economic phenomenon is represented.

As far as the qualitative characteristic of » reliability » (or faithful representation) is concerned, this notion describes information upon which one can rely and have confidence in, which one knows is complete, free from error, has been assessed in a prudent manner and whose outcome is probable. It is thus at this stage that the problems of measurement uncertainty must be taken into account. In contrast, if the problems of measurement uncertainty are considered to be an aspect of relevance, the difference between relevance, on the one hand, and reliability or faithful representation, on the other, is very blurred.

Question 2 – Description and boundary of a reporting entity - Do you agree with:

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

(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

We agree that a reporting entity is not necessarily a legal entity but can be a part of a legal entity or a group of legal entities.

(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?

We agree that financial statements could be either consolidated or individual and we welcome the reference to combined financial statements in paragraph 3.17, even though we believe that a more comprehensive analysis should be undertaken at a standard level.

We are quite concerned that the Board reaffirms in paragraph 3.9 that financial statements should be prepared from the perspective of the entity as a whole without further analysis or explanation about the implications of this approach. As an example of the lack of a common understanding of what this means, we understand from the IFRS 3 post-application review that the accounting treatment for step acquisitions and changes in ownership interests that do not result in losing control are perceived as counter-intuitive by many users.

Finally, in respect of the issues currently being investigated concerning the equity method, we believe that the current chapter of the ED about the reporting entity provides very little help to solve these. In particular, the absence of discussion about why exclusive control should be the only basis in determining the reporting entity boundary is a concern.

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;

Given the way the ED is currently drafted, and in particular, in the combination of the definitions and the recognition criteria, we see more risks than advantages in changing the definition.

The focus of the definition of an economic resource on “rights” has resulted in the creation of a notion of “other rights” in order to catch items that are currently considered as assets but which are not generated by “rights”. This seems to us to be complex and risky, since the meaning of the word “rights” is being expanded from its commonly accepted meaning. We recognise that the former phrase “other sources of value” has been rejected after consideration of comments previously received, but are not convinced by the current proposal.

Moreover, this blurred definition combined with the removal of the criterion of the probability of inflows will certainly increase the number of elements that could be defined as assets and will therefore put more pressure on the recognition criteria.

It seems that a definition of “economic resources” that limited the “other” category to «the potential to receive future economic benefits that are not available to all other parties” (see paragraph 4.8 (c)) would be sufficient since it encompasses *de facto* legal, contractual and “other rights”, without giving the latter actual status. This definition would not be so different than the current one, but would nevertheless have the merit of responding to the concerns expressed by the Board who wish it to be made clear that an asset is the resource rather than the ultimate cash-inflows it may generate. (Paragraph BC 4.10).

We are also concerned with paragraph 4.12 as it greatly broadens the scope for identifying and then recognising new items that are not recognised today: every time an entity orders or reserves future goods/ services, one can consider that the entity has a right and therefore an asset that may have to

be recognised. Even though we agree that in a purely conceptual approach, a physical asset does comprise a set of different rights, we would encourage the Board to be very cautious with this approach as it could have unintended consequences. It may therefore be helpful to establish a “default” approach which would require all the rights related to an individual physical asset to be treated as a single asset, unless there are clear and compelling reasons to disaggregate the rights from each other as part of a standard-level approach. This default approach perspective is all the more coherent if assets, as we suggest above, are no longer defined by reference to rights alone.

(b) a liability;

We agree that a liability exists as soon as an obligation exists at the end of the reporting period, regardless of the degree of probability of out-flows. However, by combining this new definition with the new recognition criteria the IASB seems to be very significantly increasing the potential for liability recognition. We therefore would agree with this new definition only if the probability threshold for recognition was explicitly maintained in the conceptual framework and not left to the discretion of the Board at a standard level.

(c) equity;

We agree that equity should remain a category defined as a residual.

(d) income; and (e) expenses

We note that the definitions of these elements are unchanged from the current Conceptual Framework. However, we do not agree that expenses and income should be defined as the difference between two balance-sheet amounts as we believe that not all changes in net assets are incomes and expenses.

In our view, the terms “income” and “expenses” should be reserved for those items that constitute net income because it is this that is currently and commonly understood by users. This concern is directly linked with our concern about the absence of a definition for net income in the “presentation” section of the ED.

In contrast to the IASB’s description, we think a definition of income and expenses based on change in assets and liabilities puts too much emphasis on the financial position and the definition of assets and liabilities, and refutes other concepts that we think are relevant for net income, like the “matching approach” that is already used in several standards.

Moreover, not all changes in assets and liabilities are income and expenses since they should not be recognised in net income :

- Some changes should be recognised as a movement in another asset or liability ;
Acknowledging this possibility in the conceptual framework could help in the treatment of contingent consideration and NCI puts, for example
- Some changes may be recognised through OCI
Although we agree that these items should not be ignored and that they can be very relevant to the understanding of the whole financial position of some entities, these other

changes in net assets have neither the same nature, nor the same utility for users as those items recognised in net income. They should therefore not be labelled in the same way. It appears to us that, in contrast to the flows which pass in profit or loss, the informational value of those elements recognised in OCI is higher when they are presented as cumulative totals rather than when they are presented only as changes of the period. We think that the most useful information the “stock” of flows accounted for in the balance sheet which could potentially affect the income statement and future cash flows. If one takes the example of the category of assets accounted for at FVOCI, we think that users may be more interested in the unrealised gains or losses (and thus in the cumulative value) than in the changes in this value in a single period. Such variations can by no means be predictive of the variations that will occur in future periods.

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?

We agree that obligations need not be legally enforceable, but can also arise when the entity has no practical ability to avoid transferring an economic resource. We welcome this practical approach and the clarification provided about obligations conditional on an entity’s own actions.

As already mentioned in our previous comment letter, we share the concerns expressed by some Board members concerning the potential impact of a new definition of a liability on the liability/ equity classification and we encourage the Board to conduct further analysis. Indeed, since equity instruments are defined by default as instruments which are not financial liabilities and because financial liabilities are defined using the notion of obligation, each change to that notion may have an impact on the classification.

We also wonder what the impact would be of:

- The emphasis in paragraph 2.14 on the predominance of the economic substance over the mere legal form;
- The widening of the definition of liability, particularly under paragraph 4.35, which now may encompass some elements which could be considered to be phenomena of economic compulsion. We think that this area could be clarified by the integration of the discussion of BC 4.75 in this section of the core framework. However, we suspect that even these explanations will still not be sufficient for one to decide, for example, on the nature of instruments with “step-up” features.

We also wonder whether these new definitions and clarification may modify current conclusions about the classification of some financial instruments, and whether they modify the “contractual obligation” to deliver cash or another financial asset.

Furthermore we wonder what would be the effective impact of the clarification of the concept of “past event” that the entity should have “already received the economic benefits”. In the case of restructuring, should we consider the economic benefits to be the past employee services or to be the expected benefits from the restructuration? From a reading of Agenda Paper 14c proposed at the July Meeting of the IASB, we note that the staff considers that the economic benefits are “past employee services”. We believe that this could usefully be specified in the framework.

Finally, although we agree with the introduction of the first criterion defining a present obligation (i.e.the entity has “no practical ability to avoid”), we think that this may lead to the identification of a

broader range of liabilities than is the case today. It is therefore necessary to have the second criterion of the existence of the past event in order to limit this range, and we do not think that the clarification that the entity should have “already received the economic benefits” is sufficient to do this effectively. As an illustration of this doubt, we note the difficulty that the Interpretation Committee experiencing in trying to reach a conclusion on how to deal with “variable payments for an asset purchase where the most challenging assessment is that of identifying the past event even when based on the proposed definition.

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.

Executory contracts

Although we think that the proposal in paragraph 4.41 as drafted might deal appropriately with derivatives it seems less clear what it means for other types of executory contracts. As drafted, the paragraph deals with executory contracts where the combined asset or liability is a single net asset or net liability, but does not unambiguously deal with combined assets and liabilities where the elements net out to zero.

Thus we do not think that paragraphs 4.40 to 4.42 of the ED translate the intention of BC4.82 to BC4.92 sufficiently clearly. BC4.92 in particular makes it clear that when the executory contract is measured using a historical cost measurement the cost is zero, unless it is an onerous contract. By including reference to the recognition of a single asset or liability, the second half of paragraph 4.41 seems to imply that there are further, unspecified, criteria which come into play and could result in an executory contract’s being recognised even when not onerous.

Unit of account

First, we believe that the unit of account may also have impact on the existence of an asset or liability, and should not be assessed only to determine which recognition and measurement requirements should be applied :

- Pensions : we believe that the entity has an obligation (even for non-vested rights), but this is only because we consider its obligations with respect to all employees rather than to individual employees;
- Rate-regulated activities: existence of rights and obligations depends on whether the entity considers its rights and obligations with respect to individual customers or with respect to the whole regulatory arrangement.

Secondly, we believe that the conceptual framework should establish the principle that the same unit of account should be used for both recognition and measurement issues. If these are not the same, we believe that financial statements may not be relevant and useful. For example, we disagree with the recent proposed amendments concerning the fair value measurement of quoted investments as the Board’s proposals about measurement are not consistent with its conclusion about the unit of account.

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?

Recognition issues are one of the most important areas of the conceptual framework as this is the first step in construction of financial statements. However, we believe that this chapter as currently drafted in the ED provides insufficient guidance.

In our view, as fundamental qualitative characteristics, relevance and reliability are objectives, rather than criteria for recognition. The proposed conceptual framework creates the presumption that all existing assets and liabilities should be recognised unless it can be demonstrated that recognition does not provide users with relevant information about, and a faithful representation of, the asset or liability, at a cost which does not outweigh the benefits of providing the information. The factors to be considered are multiple (for example, paragraphs 5.9(a) to (c); 5.13(a) to (c); 5.21(a) and (b); 5.23(a) and (b) etc.). Such an analysis is likely to be complex and the conclusion would require the exercise of a high degree of judgement. We are not convinced that it could realistically be performed by anyone other than the IASB itself when setting standards. This would effectively preclude preparers from using the conceptual framework as it is used today. In contrast, the current framework is more straightforward and operationally efficient with positive criteria that need to be met in order to recognize elements in the financial statements.

Based on the two main qualitative characteristics that we would like to promote, i.e. Relevance and Reliability, we believe that uncertainty should be dealt with by a probability threshold in the conceptual framework. This would ensure that assets and liabilities recognised in the financial statements are those that are likely to give rise to future cash-flows, and, conversely, that assets and liabilities are not recognised when their realisation and the amount at which they expect to be realised are very uncertain.

We therefore believe that uncertainty is not only a matter of measurement. We support the use of a probability threshold in the recognition criterion because we believe that the user of financial statements is interested in the probable consumption of resources, not in financial data which report elements that remain highly improbable of realisation.

In our view, relaxing the recognition criterion would lead to meaningless information:

- Recognising highly improbable inflows and outflows is unlikely to provide useful information;
- The measurement of such items is likely to be less reliable than that for assets and liabilities with more likely inflows/ outflows;
- Using judgement to determine whether a recognition threshold has been met is simpler and more reliable than making the judgements necessary to determine a measurement based on all reasonably possible expected outcomes;
- An approach that imposes the systematic tracking, collecting, and processing of information for recognising elements with a remote likelihood of occurrence does not pass the overall cost/benefit objective.

We believe that the proposed guidance about the low probability of a flow of economic benefits is insufficient and will lead to many areas for doubt and inconsistency.

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?

We agree with the proposed approach, which is based on a mix of the notions of Control and Risk and Rewards.

The use of the notions of Control and Risk and Rewards in a broad range of areas of IFRS has evolved over recent years in favour of Control, as illustrated by IFRS 10, IFRS 15 and the future Leases standard. In view of the consequences of this change, we think it would be helpful to include a discussion of the factors behind the decisions in the Framework.

Finally, we believe that the Conceptual Framework should explicitly refer to the “risk and rewards” notion instead of using new terms like “positive or negative variations” in order not to suggest that this is a new approach to assessment (that may lead to different conclusion).

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?

We welcome the improvements made. Indeed we found the discussion paper quite confusing in the way it dealt with the measurement attributes, especially concerning the way it treated the cash-flow based measurement and all the rebuttable presumptions that were incorporated about the methods to be used for the measurement of some specific assets and liabilities.

We agree with the two main categories of measurement bases which are historical cost and current value.

We note that the “equity method” has not been mentioned as a possible approach for measurement and we wonder what consequences this may have for future discussions on this topic.

(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?

We welcome the description provided for each of the measurement bases as it provides a clear common understanding of these notions.

Concerning the depiction of advantages and disadvantages, we believe that it could be more efficient to present these in a comparative table as this may avoid some repetition and highlight differences between the different attributes.

Within the chapter there are some time slight differences in the wording used and it is unclear to us whether this is intentional or not. For example, in paragraph 6.13 it is stated that income and expenses measured at historical cost may have predictive value, whereas paragraph 6.28 states that information given by assets and liabilities measured at fair value has predictive value.

Concerning the cash-flow based measurement techniques, we recognize that the Board still has a good deal of work to undertake before it can finalise this cross-cutting issue, especially the aspects of the use of credit risk or non-performance adjustments. We believe that the Board should not open up too

many avenues and should not address these issues as we do not think it could give clear answers at this time. Actually, when paragraph 6.35 states that it may sometimes be appropriate to exclude the effect of the “possibility of non-performance by the entity”, it is very unclear in which cases it would be appropriate. This paragraph may be interpreted to contain a rebuttable presumption that non-performance should normally be taken into account, whereas this issue has not yet been resolved.

Finally, we believe that table 6.1 provides information that requires much more explanation than can be included in the table. It is therefore more confusing than helpful and we think it should not be included in this form in a conceptual framework.

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?

As discussed in our response to question 1(d) and 1(e) above, we think that reliability rather than faithful representation is the most appropriate qualitative characteristic.

Having said that, while overall we agree with the proposed factors to be considered, we think that the Board does not explain how the relative importance of the two factors linked to relevance may be assessed differently depending on which financial statement is concerned (net income or financial position). For example, when considering net income, the way assets and liabilities contribute to future cash-flows (§ 6.54 a) may be more important and relevant than their characteristics (§ 6.54 b). Likewise, the impact of uncertainty measurement may not have the same weight depending on whether we consider net income or financial position; the latter could possibly accommodate a higher degree of uncertainty than net income.

We welcome the idea that a measurement basis should depict how assets / liabilities contribute to future cash-flows and we believe that this is not always the case in current standards (although this has not been identified in BCE.2). For example, in the context of onerous contracts, IAS 37 describes unavoidable costs as the least net cost of exiting the contract, that is, the lower cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it. We believe that the “lower approach” is not always relevant as it may not be consistent with the way the obligation will actually be settled.

In paragraph 6.56 it is stated that measurement uncertainty is not the same thing as outcome uncertainty. We agree with this and believe that both are determinant in the construction of relevant financial statements. It is however unclear how the Board concludes on their respective consequences in this paragraph.

We do not agree with the Board when it says in paragraph 6.57 that an estimate can be a faithful representation if it is described as being an estimate and if the nature and limitations are explained and if no errors have been made. In certain circumstances, the estimation of a fair value is so difficult and arbitrary (in level 3 for example) that it is questionable whether such estimate should always be retained for the financial statements, even if very extensive disclosure is provided.

Finally, we believe that the factors specific to initial measurement that are discussed in the ED are more akin to standard-level guidance than general principles and should therefore not be integrated in the conceptual framework.

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?

We agree that in some circumstances more than one measurement basis is needed to make an element relevant to both the financial position and the statement of profit or loss. As it is a very important element of the conceptual framework, we believe that this discussion should be positioned before the chapter relating to the factors to consider when selecting a measurement basis. Some factors may be more or less relevant depending on whether one is considering income and expenses or assets/ liabilities. For example, we believe that the way an entity conducts its business activities is the most relevant factor to consider when selecting a relevant measurement for net income. Prudence, reliability and avoiding mismatched accounting are also very important for net income.

In determining the most relevant measurement base the IASB must not lend precedence to any one statement and must demonstrate that the use of a dual measure is justified and satisfies the requirement for a positive cost/benefit balance. The use of OCI should not be regarded as a facilitator for the use of a dual measurement, but should be taken as a trigger for the Board to re-examine and confirm that the measurements selected are really the most relevant. It should also consider whether it would not be better to provide information in the notes rather than to use two different valuations on the balance sheet and in profit or loss.

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?

In paragraph BC7.5 it is stated that, unlike discussion paper, the exposure draft does not identify primary financial statements. We think that this statement is actually inconsistent with the way the ED deals with the financial statements since paragraph 7.2 a) mentions two financial statements (financial position and statement of financial performance) and then relegates cash-flow statements and changes in equity, along with other notes to the financial statements, to paragraph 7.2 b). We therefore believe that, by implication, the IASB is designating these two financial statements as primary. If this is what the IASB intends, then we disagree as we believe that not to consider cash-flow statements as a key element is not consistent with the overall objective of financial reporting. We acknowledge that the cash-flow statement is not relevant for some types of business activity (financial institutions for example) but this is not a valid reason to consider it not to be a separate element of the financial statements. This specific issue concerning a specific sector should be dealt with at a standard level (by providing an exemption for example).

We also regret that the Board has not defined specific objectives for each financial statement as this is a necessary prerequisite to selecting both recognition- and measurement-relevant criteria. We do not believe that it is just a matter of presentation and disclosure (as implied in paragraph BC 7.5) but rather a key foundation to provision of robust recognition and measurement principles. If the Board acknowledges that two different measurement bases may be needed for the financial position and financial performance, then presumably it is of the view that the two statements respond to different objectives; these two objectives should therefore be described in the conceptual framework.

The following objectives might be appropriate:

- Statement of net income is dedicated to depicting the performance of the entity over a specific period, showing the consequences of the management's actions in using the entity's resources and discharging its responsibilities.
- Statement of financial position is dedicated to providing a picture of the entity's economic resources (assets) and claims/potential claims of third parties on these resources (liabilities), as generated by its past performance and to be used in its future performance.

Both statements reflect the actions taken by the entity at different stages but some of them are more definitive and critical than others and with different degrees of certainty in achieving cash flows. To illustrate this rationale, we offer the following examples:

An entity decides to invest in a foreign operation and also to take out a finance debt denominated in foreign currency. Those two decisions have consequences in terms of exposure to currency risk and this risk should be depicted in the financial position by adjusting the value of those two items with the latest currency rate at each reporting date. However, should all these changes be recognized in net income in each period? We do not believe that this should be the case for the following reasons:

- Foreign currency borrowing (which does not form part of an investment in a foreign operation): the impact of the variation of foreign exchange on the realization of future cash flows does not depend on the entity's future actions. The consequences of the past decision (to take out a foreign borrowing) should be translated in net income.
- Investment in foreign operation: whether foreign exchange differences will be realised or not depends on the entity's future actions (sale of the investment, dividend distribution). As long as the entity has not yet decided to realize these cash-flows, they should not be recognized in net income.

When the management takes decisions that confirm the exposure to risk, the consequence of such an action should be immediately translated in net income because the only uncertainty is now how much the exposure will be. There is no more uncertainty concerning the fact that the risk will occur, or concerning its timing.

Other transactions may expose the entity to some risk but the realisation of that risk and its timing are conditional upon another action that the management should take. In these circumstances, the existence of that risk should be depicted on the statement of financial position but its effect should not be reported in net income because it does not form part completely of the performance of the period until that further action has been taken.

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.

While we agree that the statement of profit or loss is the primary source of information about financial performance for the period, we share some of the concerns expressed by MM S. Cooper and P. Finnegan and believe that the Board has not developed sufficiently robust principles to determine which elements should be recognised in net income. We are also concerned that this section does not make any reference to the business model, which we think is a key factor to consider when defining what should constitute net income.

In fact, we believe that items recognised in profit or loss should be able to be forecast and should correspond to the business model of the entity.

If one conforms to the principal qualitative characteristics of relevance and reliability, as we propose above, then one would have the following criteria for the recognition of elements in profit or loss for the period:

- Items recognised in net income, should be economically linked to the current period, using as a basis for that the “matching principle”.
If the application of the matching concept leads to the deferral of elements which do not satisfy the definition of an asset or a liability, then these could be recognised in OCI (such as, for example, a cash flow hedge).
- Items related to future cash-flows should be presented in net income only if they can be forecast and that the flows are thus probable: probability in this context relates both to the potential realisation of the flows and the fact that the value to be recognised should be close to that which will actually be realised in the future. Where cash flows could be certain of being realised but at an amount that could be different from that accounted for in the balance sheet, the amount certain of being realised would be recognised in profit or loss and the difference in OCI.
- Moreover, probability should be assessed in the light of the business model of the entity. Applying this approach to the profit or loss account, one would account in OCI for the changes in the value of assets and liabilities for which the probability of the realisation of the future cash flows is still too low for recognition in profit or loss to be relevant. This would thus include those elements referred to in the DP as “transitional items”. Certain items referred to as “bridging items” in the DP would also qualify for this category when the amounts used for the balance sheet are not sufficiently certain of occurring for them to be recognised in profit or loss.

We therefore disagree with the “all-inclusive” approach proposed in the exposure draft. We rather believe that the Board should provide positive and discriminating criteria to be met in order to recognise elements in net income. If such criteria are not developed, then in accordance with the proposals in paragraph 7.24 b), the main criterion will in effect be that of the IASB’s judgement what it is relevant or not.

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?

Since we disagree with the lack of a definition of net income, we also disagree with the proposals on the use of OCI, as this appears to be left as a free choice for Board members. We believe that OCI was better dealt with in the discussion paper, which had the merit of proposing a clearer framework for OCI.

We believe, that OCI should be defined as a link between net income and statement of financial position, especially for items recognized in financial statements but for which the probability of realization is too low for them to be recognised in profit or loss. Reasons for such low probabilities of realisation could be varied, such as:

- Realisation depends upon a further action or decision by the entity’s management (decision to sell shares, to renegotiate a debt, to sell a subsidiary, etc.);
- The amount recognised in the balance sheet does not have a high probability of being realised at that value in the context of the business model (for example, fair value in the balance sheet for financial instruments held for collection in accordance with the contractual terms).

Items	Reason for using OCI
Exchange differences on foreign operations	Although the exchange risk exists, since the entity has decided to invest in a foreign country, the realization of potential gains / losses at their “current value” is not probable enough to be relevant for net income. Furthermore, a second management decision is required for such gains / losses to be realised. ⇒ No change to IAS 21
Non-current non-financial assets (IAS 16/IAS 38)	Because a current value should be used only for a specific business model (assets held in view of sale), we believe that the revaluation model currently proposed in IAS 16, should not be a free option but reserved for specific business models. In this context, any change in fair value should be recognised in net income. ⇒ Change to IAS 16
Pensions	We believe that distinctions should be made between the causes of the changes of current value of pensions (liability side): Changes due to managerial decisions should be recognised in net income (increase in salaries, benefit for example). Changes in “market assumptions” that will not affect the “gross cash-flows” should be recognised in OCI. Concerning plan assets, we believe that they should follow the same principles that are applied to other financial assets. (See hereafter).
Other non-current non-financial liabilities	Should follow the same logic as pension liabilities

Financial instruments	Intrinsic characteristics of the instrument should be considered to select the most relevant measure for statement of financial position and business model, considered for selecting the relevant measure for net income. When there is a gap between the two values, OCI should be used.
Cash-flows hedge	As long as the hedged instrument does not impact net income since the hedged item is unrecognised, the matching principle should preclude the recognition of changes in the fair value of the hedging items in net profit.

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?

We think that all cash flows should ultimately be recognised in the profit and loss account as an element of cost or income. This is the test of the relevance of the profit and loss account, the realization of the cash flows being the ultimate proof of performance. We are therefore in favour of the Conceptual Framework establishing the principle of the systematic recycling of all the elements recognised in OCI and of each individual standard setting the principles for recycling for each type of element.

Recycling permits the recognition of cash flows whose value would become probable because of a corporate decision or a change in the business model. To improve comprehension and predictability of the income statement, items resulting from recycling could be distinguished from other cash flows realized over the period.

We therefore believe that recycling should not be a “rebuttable presumption” but rather a principle.

We can find no case where we could not identify a clear basis for identifying the appropriate period for recycling, even for pensions:

- Recycling should occur as soon as a derecognition crystallises changes in the value (settlement for pensions or a debt restructuring when the debt was previously measured at fair value with own-credit risk recognised through OCI; gain and losses on securities, exchange differences on translating foreign operations ...);
- Recycling as soon as a change in the business activities makes probable the realisation of the value previously recognised in OCI; and
- Recycling as soon the reason why OCI was used is no longer valid (in the case of an accounting mismatch such as for Cash-flow hedges)

Items	Basis for recycling
Exchange differences on foreign operations	When the foreign activity is sold or classified as held for sale. There is a managerial decision in the period that should be reflected in net income and the current value is now determined by the effective future value of realisation
Pensions	Changes in discount rate: should be recycled when the liability is settled earlier than expected. Plan assets: recycling should occur when assets are sold to pay benefits
Other long-term non- financial liabilities	Should follow the same logic as pension liabilities, changes in discount rate should be recycled if the liability is settled before its original terms.
Financial instruments	Equity instrument: Change in fair value recognised in OCI should be recycled when the asset is sold (or ready to be sold) or when the management changes its objectives concerning this asset (directed in a trading portfolio). Debt at fair value: own credit risk should be recycled when a debt is renegotiated or derecognised before maturity.
Cash-flows hedge	Should be recycled when the hedged items impacts net income.

Finally, we disagree with the conclusion stated in paragraph 7.27 that if no “recycling basis” could be identified, this may indicate that the income or expense should not be included in OCI (and thus rather, recognized immediately in net income). We believe that the absence of evident basis for recycling should first be viewed as an indicator that the measurement basis, for both net income and financial statement, may not be appropriate.

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?

We believe that the IASB has not gone far enough in its analysis, although we understand that it may be too early in the revision process for this to be completed efficiently. However, we think it is essential that constituents understand the consequences of the proposals on the current standards if they were to be changed to be compliant with the new framework.

Question 16 – Business activities Do you agree with the proposed approach to business activities? Why or why not?

No, we think that the treatment of a factor as important as the business model is inadequate. We note that the ED deals with the business activity by referring in passing to the need to consider the business activity in the paragraphs dealing with the unit of account [4.62(a)(iii)], the measurement basis [6.54(a) and presentation and disclosure [6.76-6.77 and 7.10]. In our view, this understates the importance of the topic to the point where it could be deemed to be of little relevance. Instead, we think that it would be more helpful to supplement this with a separate section of the conceptual framework devoted to a comprehensive discussion of the relevance of the business model to the accounting models.

This specific section should be located within the chapter on qualitative characteristics, as support for the notion of relevance. Indeed, even though the most obvious impact of consideration of the business model is on measurement, we believe that it also has a role to play in recognition, unit of account and presentation, for example

- “Own use” contracts are not recognised as derivatives because of the business model of the entity;
- In a rate regulatory context, unit of account may be appropriately defined as all of the customers rather than individual ones, in order to identify rights and obligations ;
- Changes in fair value should not be presented in net income when the business model of the entity is to hold assets until maturity.

Concerning the definition of “business model”, we believe that a common understanding of this notion is orientated towards a value-creation model and one possible description would be, “the strategy applied by the entity to manage its resources and obligations in order to create value”.

Instead of trying to define some specific business models, we propose that the Board work on the key characteristics of business models that could be of interest for accounting purposes (such as, for example, the length of the activity cycle, the use of inputs and outputs, the types of risks related to the activity, and the degree of certainty in the generation of cash flow,)

Consideration of the implications of the business model should be then a compulsory step in the development of all standards. This would not mean that industry-specific standards will be obligatory but would ensure that the question of the relevance of the accounting to entities of all kinds is systematically considered. Business models may not have a role to play for each item, in each standard. However, when developing (amending) a new standard, the Board should consider whether, in the particular case of the elements covered by the standard, different accounting principles would be relevant to distinguish between the different profiles of business models.

Having determined that it would be relevant to distinguish between business models, the Board should then determine which characteristics are decisive in the choice of accounting model and which accounting model is the most appropriate for each profile. This determination should be based on the main characteristics common to the business models.

Finally, beyond the business model that should be reflected in the accounting model, we believe that other specific managerial « intention » should also be considered. This will be relevant, for example, for the determination of the most appropriate estimate for litigation: the way the management expects to settle its obligation should be reflected in the estimate rather than a standardized amount. “Management intent”, should not therefore systematically be deemed to be not neutral and discarded, since when it is relevant it should be reflected in relevant and useful financial reporting .

Question 17 – Long-term investment Do you agree with the IASB’s conclusions on long-term investment? Why or why not?

We note that the IASB has identified two aspects referred to under the heading of “long-term investment”: the question of the type of investor or user of the financial statements on the one hand, and the type of investment that the entity will make in the context of its business model/activity, on the other. We think that the financial statements will be fit for their purpose, and notably for use by all types of users, if our recommendations on stewardship, prudence, reliability and the business model are reflected in the Conceptual Framework.