financial executives international

canada

November 25, 2015

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

RE: Exposure Draft Conceptual Framework for Financial Reporting

Dear Sirs and Mesdames:

The Committee on Corporate Reporting (CCR) of Financial Executives International Canada (FEI Canada) is pleased to respond to your request for comment on the Exposure Draft Conceptual Framework for Financial Reporting.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 1,600 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

CCR is one of seven thought leadership committees of FEI Canada. CCR is devoted to improving the awareness of issues and educating FEI Canada members on the implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

As indicated in our response to the discussion paper, CCR commends the International Accounting Standards Board for restarting its work on the Conceptual Framework. We continue to believe that the framework is essential for the development and maintenance of internally consistent accounting standards and for guidance when existing standards do not address specific circumstances. It is critical to ensure we have a sound foundation on which to build specific standards, and for guidance when necessary.

Answers to the specific questions from the invitation to comment are included in the Appendix.

Thank you for the opportunity to respond to this important area of international financial reporting .

Yours truly,

Neil W. Robertson
Chair – Committee on Corporate Reporting
FEI Canada

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

- **(a) To give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources;**
- **(b) To reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality;**
- **(c) To state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;**
- **(d) To clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and**
- **(e) To continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?**

Why or why not?

(a) We agree with explicitly providing information needed to assess management's stewardship of the entity's resources. However, we are concerned that the term "stewardship" is not defined and its scope is not delineated.

Paragraph 1.4(b) says "how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources". Paragraph 1.23 states "Examples of management's responsibilities to use the entity's resources include protecting the entity's resources from unfavorable effects of economic factors, such as price and technological changes, and ensuring that the entity complies with applicable laws, regulations and contractual provisions."

This discussion of stewardship goes well beyond the scope of financial statements and, of financial reporting. We think that if the prominence of stewardship is increased, then it is important to clearly identify what is meant by that term in the context of financial statements and financial reporting.

(b) We agree with the inclusion of the concept of prudence as included in proposed paragraph 2.18, i.e. in order to support neutrality. However, we think that many accountants view prudence as asymmetric with losses being recognized more easily than gains. It will be important for the IASB to communicate clearly that asymmetric prudence is inconsistent with the conceptual framework.

(c) We agree with the conceptual framework *stating explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form.*

(d) We agree that the conceptual framework should 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. Relevant financial information is that which is capable of making a difference in the decisions made by users (paragraph 2.6). So clearly some level of measurement uncertainty will affect whether the information is capable of making a difference in decisions. Greater clarity on the words in paragraph 2.13 "there is a trade-off between the level of measurement uncertainty and other factors that make information relevant" would be useful.

(e) *We agree that the conceptual framework should continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information.*

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

(a) The proposed description of a reporting entity in paragraphs 3.11-3.12; and
(b) The discussion of the boundary of a reporting entity in paragraphs 3.13-3.25?

Why or why not?

The proposed description of a reporting entity and its boundaries do not provide any limitation on what might be considered a reporting entity. We agree that a reporting entity need not be a legal entity and with paragraph 3.18 which states:
"If a reporting entity is not a legal entity, the boundary of the reporting entity needs to be set in such a way that the financial statements:
(a) provide the relevant financial information needed by those existing and potential investors, lenders and other creditors who rely on the financial statements; and
(b) faithfully represent the economic activities of the entity.
We also think that when a reporting entity is not a legal entity, disclosure should be made of why this approach has been chosen and what elements of the legal entity/entities are not included in the reporting entity.

Question 3 – Definitions of elements:
Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity):

(a) An asset, and the related definition of an economic resource:
(b) A liability;
(c) Equity;
(d) Income:
(e) And expenses?

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

We agree with the proposed definition of elements and have the following additional comments on the guidance provided.

There are different definitions of the word control in the conceptual framework (refer to section 3.14 and 3.15) and IFRS 10. We see this as problematic where an entity has a situation for which they are looking at IFRS 10 but need to revert to the conceptual framework. Further, in the conceptual framework there are definitions of control in sections 4.7, and 4.17 to 4.23 that appear to be at odds with the definitions in the aforementioned section 3.14 and 3.15. While we agree with the underlying concepts, the use of the word control in section 4 needs to be replaced.
We believe that a definition of revenue should be added as an element. Revenue is explicitly addressed in IFRS 15, among other sections of the guidance. We do not believe that income adequately covers revenue and therefore that a separate definition is required.

Question 4 - 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 with the proposed description of "present obligation" and the proposed guidance to support this description.

We note that paragraph 4.35 discusses the circumstances in which the transfer of an economic resource may be conditional on a future action, such as conducting particular activities or exercising particular options within a contract. The last sentence states "The entity has an obligation if it has no practical ability to avoid that action". We believe it would be helpful to link the meaning of "no practical ability to avoid that action" to the guidance regarding "no practical ability to avoid the transfer" that exists in paragraph 4.32.

Question 5 – Do you have any comments on the proposed “other guidance on the elements”? Do you believe that additional guidance is needed? If so, please specify what that guidance should include.

Generally we find the other guidance useful with the following exceptions:

In section 4.32, we believe the last sentence, “It is not sufficient that the management of the entity intends to make the transfer or that the transfer is probable”, would be better included as a final sentence in paragraph 4.31. It is confusing in paragraph 4.32.

Overall, we do not feel that the additional guidance in sections 4.9, 4.25, and 4.26 is useful or necessary, and should therefore be removed. We noted, more broadly, that there are sections that provide standards level guidance that we would suggest should be reserved for standards rather than the conceptual framework.

Under section 4.4, the two points under “Other changes in resources and claims”, which do not have an element defined, would flow better if included under “Financial performance (changes in resources and claims)” with the following in the Element column: “Other changes in resources and claims that do not represent an income or expense”.

Question 6 – Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes would you suggest?

We agree with the proposed definition of recognition but not with all of the guidance regarding relevance.

We disagree with the language used in the guidance for relevance regarding the probability of an inflow our outflow of economic benefits. We do not believe it is necessary to change the language to “there is only a low probability that an inflow or outflow of economic benefits will result”, and that the existing language of “it is probable that any future economic benefit associated with the item will flow to or from the entity” is preferable, well understood, and the appropriate threshold. We are concerned the new language may result in the potential recognition of additional assets and liabilities that are not relevant to the user of the financial statements.

We agree with the concept of faithful representation and the cost constraint criterion, as aligned with the current conceptual framework. We suggest that an entity should provide disclosure in the event that it has exercised this the cost constraint criterion not to recognize an element.

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 discussion.

Question 8 – Measurement bases:
Has the IASB:

(a) Correctly identified the measurement bases that should be described in the *Conceptual Framework?* If not, which measurement bases would you include and why?
(b) Properly describe 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 believe that the measurement bases identified are correct, including the advantages and disadvantages of each. However we also believe that this chapter is not conceptual in nature because it merely describes the measurement bases and their application as they are used today. For this chapter be truly foundational, it should include a more theoretical discussion of the measures that could be used in different circumstances and the justification therefor, considering the objectives of financial reporting and the ultimate goal of measuring financial performance.

We acknowledge that this is a difficult topic that has been the subject of much debate. We encourage the IASB to include measurement on its research agenda so that this chapter can provide better conceptual guidance on the relevance of each measurement basis and, if a mixed measurement model is retained as a result of the research, when each measurement should be used.

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?

While we agree with the factors listed, in our view it is incomplete. We believe, as preparers of financial information, that cost/benefit and timeliness, as well as the ability to predict the measure in the future, also should be considerations when selecting a measurement basis. These additional factors are important for managing the business and planning purposes.

We note that the discussion generally describes current practice, rather than relying on more fundamental research, as suggested above.

Question 10 – More than one relevant measurement basis:
Do you agree with the approach discussed in paragraphs 6.74-6.77 and BC6.69? Why or why not?

We agree that using more than one measurement basis for the same item in the financial statements can be appropriate because different users have different information needs. It also allows the IASB to make improvements to financial reporting that are acceptable to its various stakeholders.

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?

We generally agree with the objective and scope of financial statements and the discussion regarding the financial statements as a communication tool. However, we note that much of this discussion is not explicitly stated to be limited by the scope of financial statements. For example, paragraph 7.3 refers to "information about the nature of both recognised and unrecognised elements and about the risks arising from them". The term "the nature of" could be read to include information beyond the scope of financial statements, such as projections of future cash flows and uncertainties relating to these, or environmental or technical risks associated with property, plant and equipment.

As preparers, our major concern in this area is disclosure overload. We recognize that the IASB has a separate Disclosure Initiative and hope that this will result in a clear focus in IFRSs on relevant and material disclosures. We think that the IASB should consider whether the Conceptual Framework should be amended to align with the outcomes of the Disclosure Initiative once this is complete.

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.

We think that the proposed description of profit or loss is appropriate at this time. The determination of appropriate subtotals in a statement of comprehensive income is important. We note that the Primary Financial Statements research project will address the purpose, structure and content of the financial statements, including the income statement and we think that project is the appropriate place to address the definition of profit and loss.

In the interim, having a very limited ability to exclude items that are included in comprehensive income from profit or loss provides some discipline, while still permitting the IASB to permit or require specific items to be reported in OCI. This is one area where we do not support the ability of the preparer to determine what can be presented in OCI.

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 ot the IASB for future decisions about the use of other comprehensive income? Why or why not?

As noted in our response to Question 12, we see the proposals for the Conceptual Framework on profit & loss and OCI to be a temporary measure until the research project on the Primary Financial Statements project is completed. The proposals provide reasonable guidance to the IASB for future decisions about the use of OCI and should result in consistent decisions by the IASB.

Consistent with our view that the proposals should be a temporary measure, we do not think they should influence the research project on Primary Financial Statements and the IASB may well need to reopen this part of the Conceptual Framework once that project is complete.

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 agree with the presumption that amounts recorded in OCI should be recycled into profit and loss. However, we also recognize that there may be some items for which there is no clear basis for identifying the period in which reclassification would enhance the relevance of the information in the statement of profit or loss. In such cases, reclassifying the amount in OCI would not provide relevant information and could result in the financial statements being less understandable. We think that the IASB should rebut the presumption only in rare circumstances and should explain its rationale for any rebuttal in the Basis for Conclusions for the IFRS.