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Comments on Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*

Dear Mr Hoogervorst,

The European Insurance and Occupational Pensions Authority (EIOPA) welcomes the opportunity to comment on the IASB's Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (DP).

EIOPA was established as part of the European System of Financial Supervisors to support the stability of the financial system, transparency of markets and financial products as well as the protection of policyholders, pension scheme members and beneficiaries within the European Union.

EIOPA fully supports the development of a single set of global, high quality financial reporting and accounting standards and therefore, appreciates the opportunity to provide input into the review of the Conceptual Framework.

EIOPA welcomes the DP as a first step towards issuing a revised Conceptual Framework designed to obtain initial views and comments on a number of matters while also focusing on areas that have caused the IASB problems in practice.

Please find EIOPA's responses to the questions asked in the DP in the attached Appendix.

If you have any questions or wish to discuss this further with us, please feel free to contact Ms Sandra Hack at Sandra.Hack@eiopa.europa.eu.

Kind regards,

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?

(a) We agree with the fact that the Conceptual Framework does not become an IFRS Standard and does not override any specific standard. We understand why the IASB consider 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. However, it should be clear that the Conceptual Framework plays an important role in helping parties other than the IASB (for example, preparers, auditors, regulators, IFRS IC and users of financial statements) to understand, and in the case of IFRS IC interpret, existing IFRSs. Preparers will also use the Conceptual Framework to develop accounting policies when no Standard or Interpretation specifically applies to a particular transaction or event.

(b) The DP notes that the IASB would not be prohibited from issuing an IFRS that could conflict with the Conceptual Framework in order to meet the overall objectives of financial reporting. We support the proposition that where there would be a conflict between the Conceptual Framework and future Standards, the IASB should describe the departure from the Conceptual Framework, and the reasons for it, in the accompanying Basis for Conclusions. We believe that it is likely that the principles of the revised Conceptual Framework will conflict with some requirements in existing IFRS. The IASB should identify these conflicts to the extent possible and assess whether the conflicts should be removed or kept in order to meet the overall objectives of financial reporting. This analysis should be a priority of the IASB and should be done before the Exposure draft of the Conceptual Framework is issued.

SECTION 2 ELEMENTS OF FINANCIAL STATEMENTS

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?

The proposed definitions, making reference to a "present economic resource controlled" or to a "present obligation to transfer an economic resource" as a result of past events, are easier to understand and are more likely to result in consistent application than the current definitions. The new definitions avoid the existing confusion between the "resource", or "obligation", and the resulting inflows or outflows.

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?

(a) We agree that there should not be any probability thresholds in the definition of an asset or of a liability. To retain a notion of expected or probable outflows or inflows would lead to excluding many items that are clearly assets and liabilities such as options, stand-ready obligations and insurance contacts.
Consequently, we support the distinction made in the DP between:

- Uncertainty about whether an asset or liability exists, for example in the case of litigation, where it is uncertain whether an entity has committed an act that would require it to pay damages or a fine.
- Uncertainty about whether an asset or liability will result in any inflow or outflow.

(b) We agree that if there could be significant uncertainty about whether a particular type of asset or liability exists, it would be appropriate to deal with this uncertainty when the IASB develops or revises a Standard on that type of asset or liability. The relevance of information, and what is required to provide a faithful representation of the particular circumstances, is closely connected to the particular context of the items included within the scope of each standard. Therefore, we support the inclusion in each standard of consideration of the treatment of uncertainty and its impact on decisions regarding whether an asset or liability exists.

(c) EIOPA understands that the IASB is arguing that a probability threshold could lead to a failure to recognise some items that are undoubtedly assets or liabilities, just because they would have at a certain point of time a low probability of resulting in an inflow or an outflow of economic benefits. In some cases, as with some issued financial derivatives or insurance contracts, it may always be relevant to recognise these, even if the outcome probability is very low at inception. We note that for some options, such as derivatives, insurance contracts and guarantees, the probability could vary over time.
We believe that introducing explicit probability thresholds in the Conceptual Framework may reduce the flexibility to prepare Standards, leading to standards which:

- do not result in the most relevant and reliable information being provided in the context considered; or
- prevent an entity's business model from being reflected.

Notwithstanding this, EIOPA believes it is important that the Conceptual Framework does not prevent consideration of probability at the individual standard level. EIOPA believes that probability is relevant to recognition in some situations, in particular it is aware that there are scenarios where it would make sense to have thresholds for assets such as for deferred tax assets.

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?

We believe it would be useful to define contributions to equity, distributions of equity and transfers between classes of equity instruments.

The Revenue ED defines revenue from contracts with customers as:

"the income arising in the course of an entity's ordinary activities".

Similarly, it defines income as:

"increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants".

These definitions are very broad. We think that it would be useful to explain the concept of revenue in the conceptual framework. In particular, it would be interesting to consider why incomes and gains resulting from the management of assets would not be components of revenue in the context of an insurance activity. Our comments in relation to income and expense reported in profit or loss versus in OCI are provided in response to the questions relating to Section 8.

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 favours 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?

We agree that the IASB should retain the existing definition of a liability which encompasses both legal and constructive obligations. Excluding some constructive obligation would provide less relevant information to users of financial statements about the entity's future cash flows relating to past activities and would not result in a faithful representation. On the other hand, we agree that economic compulsion to act in its own best interest or the best interests of the shareholders does not in itself create an obligation against the entity. We believe that adding guidance to support the definition of constructive obligation based on the wording used in § 3. 50 would help distinguish constructive obligation 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 favour 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.

We believe that view 1 does not give a faithful representation of activities. Although, the entity could have the ability to avoid the transfer of economic resources through its future actions, it would be misleading to draw up financial statements based on the assumption that the entity could terminate employment contracts, stop operating businesses, avoid making sales or avoid increasing activity in order to avoid the transfer of resources.

We are concerned that view 3 would result in the recognition of too many liabilities. However, EIOPA does not believe that the examples in the DP provide a clear articulation of the differences between views 2 and 3.

Thus at this stage, EIOPA believes that view 2 could be a workable solution. However, the IASB should clarify when an obligation is "practically unconditional" and develop more guidance on:

- when benefits are received; and
- activities that could be considered as a reference for the determination and the measurement of a present obligation.

Moreover, it would be useful for the IASB to better explain the possible interaction between economic compulsion and the fact that an entity would not have the practical ability to avoid a transfer through its future actions.

Question 7
Do you have comments on any of the other guidance proposed in this section of the DP to support the asset and liability definitions?

We support the additional guidance to be included in the Conceptual Framework explaining the meaning of: 'economic resource'; 'control'; and 'transfer an economic resource'. We also support the guidance provided on the substance of contractual rights and obligations, the role of economic compulsion, and executory contracts.

SECTION 4 RECOGNITION AND DERECOGNITION

Question 8
Paragraphs 4. 1–4. 27 discuss recognition criteria. In the IASB's preliminary view, an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular standard that an entity need not, or should not, recognise an asset or a liability because: (a) recognising 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?

(a) We support the IASB's preliminary view that an item that meets the definition of an asset or a liability should not automatically be recognised. An asset or liability should be recognised only if its recognition provides users of financial statements with information that is relevant, or is sufficiently relevant to justify the cost. Mindful that the conceptual framework is not a standard, and does not override standards, we consider it appropriate that:

- relevance is assessed at the standard level; and
- when a standard requires the recognition of an asset or a liability, the recognition criteria in the conceptual framework cannot override that requirement. However, the IASB should explicitly justify such a departure from the Conceptual Framework.

(b) We agree that an entity should not recognise an asset or a liability if no measure of the asset (or the liability) would result in a faithful representation of either the asset (or liability) or the changes in the asset (or liability), even if all necessary descriptions and explanations are disclosed.

Question 9

In the IASB's preliminary view, as set out in paragraphs 4. 28–4. 51, an entity should derecognise 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 recognise 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?

We can understand the willingness of the IASB to introduce a derecognition principal based on a control approach that is symmetrical to the approach retained in the recognition principle. However, we have the following comments:

- the IASB recognises in the DP that a risks and rewards approach could portray some transactions more accurately;
- in the different examples the IASB seems to pit the control approach against the risks and rewards approach. However, current standards such as IAS 39 do not contrast these two approaches so dramatically when they define the derecognition principles;
- We wonder if a control approach is completely appropriate in the context of liabilities.

Regarding the situation where an entity retains a component of an asset or a liability, EIOPA believes that derecognition should be dependent on the circumstances of the case and should be addressed in the Standard. However, we are of the view that principles should be clearly articulated regarding the accounting treatment of modifications to a contract or riders which lead to substantial changes, additional rights and obligations or the reduction of existing rights and obligations.

SECTION 5 DEFINITION OF EQUITY AND DISTINCTION BETWEEN LIABILITY AND EQUITY ELEMENTS

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 of the DP. 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) of the DP).

(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) recognise 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?

(a) EIOPA agrees with the IASB's preliminary view that the definition of equity as a residual interest of the excess of assets over liabilities can be maintained.

(b) EIOPA further agrees with the IASB's preliminary view that the narrow equity approach, as presented in the DP, does not fit in a principle-based accounting framework and cannot ensure a fair depiction of the financing of an entity. However, EIOPA is not convinced that equity can only be defined as "not being a liability" and questions whether the strict obligation approach, as presented in the ED, will necessarily lead to the desired consistent application. As outlined in the ED, the strict obligation approach would probably not prevent some mutuals from being deprived of any equity as defined in this approach and would necessitate further exemptions. Also, EIOPA believes that there are instruments, which are more similar to a liability, yet still "give the holder the right to receive a portion of any distribution of equity to holders of that class of claim" (see paragraph 5. 34 of the DP).
EIOPA agrees that obligations to issue equity instruments, and obligations that only arise upon liquidation, are not liabilities. However, these equity features may be incorporated in some liabilities. An approach to do this is for the IASB to re-think the current definitions, allowing the IASB to define equity alongside liabilities (see paragraph 5. 37 of the DP). The recognition of mezzanine capital (equity instruments with liability characteristics and liabilities with equity characteristics) may help to appropriately present these complex financing instruments.

(c) EIOPA agrees that it is important for the readers of the financial statements to understand how the profits of an entity are allocated to the different holders of equity and between different equity classes. From the point of view that equity will always be the residual of assets less liabilities it is hard to see how various equity classes could be directly measured; therefore, the allocation of total equity would appear more logical. Similarly, changes in the measures of equity instruments could be understood as "transfer of wealth" as described in the DP.

(d) EIOPA believes that the IASB's proposal provides a possible solution but we note that it would compromise consistent application and transparency. EIOPA therefore, suggests that the IASB defines equity or equity characteristics in a way that takes into account the specificities of mutuals.

SECTION 6 MEASUREMENT

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 of the DP. 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?

(a) The definition of the objective of measurement is very broad and could be considered as a general objective of financial statements, recognition and derecognition principles. We believe that the objective of measurement is to provide investors, creditors and other lenders with a faithful representation of how efficiently and effectively an entity's management and governing board have discharged their responsibilities to use that entity's resources. This should provide useful information in a manner consistent with how investors, creditors and other lenders are likely to assess the contribution of individual assets and liabilities to the entity's future cash flows, considered as a whole. We believe that these two facets of the measurement objective should explicitly recognise the linkage with presentation, the use of OCI and the concepts underlying the use of OCI. Consistency between measurement and presentation is of significant importance, when the measurement basis for the statement of financial position and the statement(s) of profit or loss and OCI differ. This also implies that the IASB needs to consider removing accounting and measurement mismatches when deciding how to measure, or how to present, different items.

(b) EIOPA is supportive of a mixed measurement model. EIOPA recognises for different circumstances different measurement models have merit.

(c) EIOPA thinks it is important that the IASB considers what the effect of a specific measurement objective will have on profit or loss and OCI. EIOPA however, recommends that the IASB first determine what is the meaning and the purpose of profit or loss, compared to OCI (and vice versa). We believe it is crucial to understand what the rationale and underlying justification is before requiring the use of profit or loss or OCI on an ad hoc basis.

(d) In general EIOPA would agree that of particular relevance to users of financial statements is the measurement of the future contributions of a particular asset or liability to the cash flows of the entity. However, there are a number of exceptions to this rule e. g. where accounting mismatches occur. EIOPA does not see the need to value liabilities that may be settled differently, by using different measurement bases. EIOPA believes that the obligation should be valued, and not the current intention of the entity regarding the way it may settle or fulfil the obligation.

(e) EIOPA agrees that the minimum possible number of different measurement approaches should be used to facilitate the easier understanding of the financial statements. We think that this can only be

achieved by clearly defining measurement objectives, and thereby avoiding the need for exemptions.

(f) EIOPA agrees, and suggests that this should be part of the assessment of "relevance".

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

We broadly consider the IASB's preliminary views, and the developments included in paragraphs 6. 73 to 6. 90, to be appropriate.

(b) Where assets are traded, the most relevant measurement should be the current exit price.

(d) EIOPA does not consider it apparent why the significance of an asset should have an impact on the appropriate measurement objective. EIOPA suggests that the IASB provides further explanations to clarify this rationale.

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.

We broadly consider the IASB's preliminary views, and the developments included in paragraphs 6. 97 to 6. 109, to be appropriate.

In particular, we agree that for contractual liabilities which have stated terms but highly uncertain settlement amounts and/or timing (e. g. insurance contracts and post-employment benefits), a cost based measurement is unlikely to provide relevant information regarding the activity of relevant entities. We fully support your thinking that a cash-flow based measurement is likely to be the most relevant information for these liabilities.

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?

The use of cost based measurement is unlikely to provide information that is useful for assessing the prospects for future cash flows in situations where the contribution of an asset to future cash flows, or the way in which a liability is settled or fulfilled, is particularly difficult to assess. We agree that market value is likely to be the most relevant measurement in this case.

Question 15
Do you have any further comments on the discussion of measurement in this section?

We agree that all cash-flow-based measurement should consider expectations about:

- possible variations in the amount and timing of the cash-flows;
- time value of money; and
- price for bearing the uncertainty inherent in the cash flows.

In particular, it is essential for investors to be able to identify in the financial statements that assets (or liabilities) with the same expected value but with considerably different ranges of possible outcomes cannot have the same values.

Whilst EIOPA understands the IASB's rational for considering an entity's own credit risk, it believes this is not necessarily relevant information. Considering the going concern assumption of financial statements and the consequent fulfilment of an entity's obligation, EIOPA would not favour recognising the effect of changes to an entity's own credit risk for financial instruments unless it is to address accounting mismatches.

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.

EIOPA is supportive of the IASB's proposals in this regard.

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?

Points (a) to (d) of paragraph 7.46 within the Conceptual Framework state that:

(a) if information to meet a disclosure requirement in a Standard is not considered material, the entity may omit it from its financial statements;

(b) disclosures additional to those specifically required by a Standard may be required for material items in order to meet the disclosure objective of that Standard or to meet the objective of financial reporting;

(c) disclosure of immaterial information can impair the understandability of material information that is also disclosed; and

(d) just because a line item presented in a primary financial statement is determined to be material, it does not automatically follow that all IFRS disclosures pertaining to that line item are material to the entity's financial statements. An entity would assess the materiality of each disclosure requirement individually.

EIOPA believes that the addition of these points will be beneficial for preparers of financial statements, and will complement any amendments to accounting standards or additional educational material that the IASB is considering providing.

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?

As users of financial statements EIOPA supports the IASB's position regarding communication and would welcome measures that would make disclosures more entity specific and less "boiler plate".

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 revising particular Standards?

EIOPA fully supports the requirement to have a total for profit or loss. As Insurance Supervisors, the profit or loss figure is an essential input in Supervisors' analysis of Regulated Entities. EIOPA believes that the profit or loss figure is a primary source of information used by virtually all users of financial statements and to remove this figure could have a negative impact on the confidence users place in published financial statements.

This view does not prevent users from considering financial performance as an assessment of:

- the entity's capacity for generating net cash flows through its operations; and
- how their management discharged its responsibilities.

Therefore users should also consider income and expenses recognised in OCI.

Question 20

The IASB's preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognised in OCI to be recognised 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?

We believe that if the Conceptual Framework does not require recycling from OCI to Profit or Loss then the statement is only an income statement and does not provide a profit or loss total with an informational value. To determine whether recycling is appropriate, greater clarity is required on the purpose of the OCI.

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.

EIOPA recognises that the broad approach allows the use of OCI for transitory remeasurement and thereby could provide a more relevant statement of the financial position of entities. Regarding the recycling aspect, EIOPA sees merit within the approach outlined in 2A as it will bring consistency and will harmonise the application of OCI throughout the accounting standards. On balance however, EIOPA would favour 2B as EIOPA is of the view that this approach, as outlined, is more consistent with the current accounting standards and provides the flexibility that may be required to provide the more relevant result in the financial statements.

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.

Stewardship

EIOPA agrees that despite the removal of an explicit reference to stewardship, the concept remains captured within the description cited in point 9.7 of the Discussion Paper. Furthermore, EIOPA believes that the concept of stewardship is also implied within the going concern principle referred to in points 9.42-9.44.

Reliability

In general, EIOPA supports replacing the term "reliability" with "faithful representation". In addition, EIOPA does not consider the mention of "substance over form" to be redundant and sees merit in highlighting the principle by including it in the description of faithful representation in Chapter 3. The "substance over form" principle is an integral part of the faithful representation concept; the latter cannot be defined properly without the former.

Prudence

EIOPA does not support removal of the reference to prudence, as it does not agree with the statement made in point 9.18 of the Discussion Paper (that retaining a reference to prudence would conflict with keeping neutrality, or that it would automatically lead to a biased appraisal of assets or liabilities). EIOPA believes that actors in financial markets are generally risk-averse, this influences open market prices and should be taken into account in the valuation of assets and liabilities with uncertain outcomes. It should be noted that accounting standards such as IAS 12 and IAS 37 use prudence as part of the recognition of assets and this is considered as appropriate by the majority of stakeholders.

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?

EIOPA supports the concept of considering business models when defining Standards and believe that it is particularly relevant for valuation and presentation. EIOPA understands the IASB's concerns and deliberations regarding the business model concept. We agree that it may be useful to include references to the business model of an entity in future guidelines. We acknowledge that when a business model methodology is used there will be some concerns regarding the situation where two entities have practically the same business model but apply the Standard differently. Furthermore, EIOPA believes that a business model concept could help to apply a holistic approach in the preparation of the financial statements.

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?

EIOPA supports IASB's view in point 9.38 and the rationale behind it, that the decision on selecting units of account should be standard-specific rather than being a uniform solution for a broad range of standards.

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?

In line with its comment to Question 22, EIOPA believes that a link exists between the concepts of going concern and stewardship. Therefore, any definition of going concern should relate to or include the concept of stewardship. EIOPA supports the proposals on going concern as presented in the Discussion Paper. However, it would welcome further clarification and guidance regarding issues such as a time horizon, as it finds the existing definition vague and unspecific. EIOPA sees merit in bringing the definition of going concern in line with the definition used by the IAASB.

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.

EIOPA supports the IASB's conclusion that the concepts of capital maintenance are mostly relevant to high inflation economies and they should be developed in tandem with revisions to IAS 29.