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Stellungnahme zum IASB Exposure Draft 2015/3 – Conceptual Framework for Financial Reporting

Die Wirtschaftsprüferkammer hat mit Schreiben vom 4. November 2015 gegenüber dem International Accounting Standards Board (IASB) zum Exposure Draft 2015/3 – Conceptual Framework for Financial Reporting wie nachfolgend wiedergegeben Stellung genommen.

We are pleased to take this opportunity to comment on the Exposure Draft: Conceptual Framework for Financial Reporting. WPK supports the work of the IASB to enhance the usefulness of the existing Conceptual Framework. A contemporary and consistent Conceptual Framework is indispensable for the users of IFRS to interpret and apply the standards as well as for the standard setting activities of the IASB.

Even though a complete review of the Conceptual Framework would be preferable, we understand the time constraints of this project and appreciate the IASB's efforts to clarify and update at least certain aspects of the Conceptual Framework

Unfortunately the distinction between equity and liabilities has been deferred to a separate project. We ask the IASB to pursue this issue with high-priority.

However we are uncertain about the consequences that some of the proposed changes to the Conceptual Framework will have on the existing IFRS themselves as well as on the users' current understanding of IFRS.

The Exposure Draft states that "the IASB will not automatically change existing Standards as a result of the changes to the Conceptual Framework" (page 9). Nevertheless the changes of the definitions of assets and liabilities and of the corresponding recognition criteria may lead to consequential amendments of existing standards in the future.

Furthermore chances are that certain intended changes, like the introduction of the concept of management stewardship or the reintroduction of prudence, may alter some IFRS-users' understanding of the application of IFRS – even though the Exposure Draft solely intends a clarification of these issues (page 7).

Please find below some additional comments on selected issues:

Management stewardship

We support the proposal 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 (ED paragraph 1.22). Nevertheless we would like to point out that the understanding of the term 'stewardship' might be interpreted differently across jurisdictions.

Prudence

We welcome the reintroduction of the conception of 'prudence' (defined as the exercise of caution when making judgements under conditions of uncertainty). By this measure it may be possible to limit management from being too optimistic when exercising judgement.

Substance over Form

We support the proposals of the Board to explicitly state in paragraph 2.14 that a faithful representation provides information about the substance of an economic phenomenon instead of merely providing information about its legal form. Providing information only about a legal form that differs from the economic substance of the underlying economic phenomenon would not result in a faithful representation (Substance over Form).

However, in many cases, legal rights and obligations are the basis for the economic substance of an issue. Therefore the legal aspects must be taken into consideration as well, when assessing the economic substance of an issue.

Combined financial statements

According to paragraph 3.17 financial statements are sometimes prepared for two or more entities that do not have a parent-subsidiary relationship with each other (combined financial statements).

We believe that the Conceptual Framework should include a clarification that combined financial statements can comply with IFRSs. Moreover there should be more detailed guidance or even a Standards-level project to clarify which entities could prepare these combined financial statements. Such a project should also address carve-out financial statements, which is very common in practice as well.

Definitions of elements

Due to the fact that IAS 32 will not be changed in connection with the revision of the Conceptual Framework we are concerned about the impact of any amended definition of liability. The distinction between liabilities and equity has given rise to many difficulties and disputes for both preparer and auditor (e.g. some hybrid financial instrument).

Before changing the definition of liability it may be advisable to wait for the results of the project to clarify the distinction between equity and liability.

Classification of statement of profit or loss or other comprehensive income

In order to communicate information about financial performance more efficiently and effectively it is proposed in paragraph 7.19 that income and expenses in the statement(s) of financial performance are classified into either (a) the statement of profit or loss (p&l), which includes a total or subtotal for profit or loss or (b) other comprehensive income (OCI).

Especially because the role of OCI has not been finally determined, we recommend that the IASB should first develop principles for measuring and presenting performance. This includes a definition of performance and the development of criteria for reporting items either in profit or loss or in OCI.

Recognition criteria

According to paragraph 5.9 an entity recognises an asset or a liability (and any related income, expenses or changes in equity) if such recognition provides users of financial statements with: (a) relevant information about the asset or the liability and about any income, expenses or changes in equity; (b) a faithful representation of the asset or the liability and of any income, expenses or changes in equity; and (c) information that results in benefits exceeding the cost of providing that information. Paragraph 5.24 explains that cost considerations constrain recognition decisions. We agree with both criteria (a) and (b). However, we think criterion (c) is difficult to implement in practice. Especially the ”Benefits” of providing the information are hardly reliably measurable.

Further Aspects:

- *Departure from Conceptual Framework:*

If requirements in a Standard depart from specifications in the Conceptual Framework, we kindly request the IASB to explain the reasons for doing so in the Basis for Conclusion of the relevant Standard.

- *Going Concern Assumption:*

In paragraph 3.10 it is proposed that the reporting entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or cease trading. If such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed in the financial statements.

We appreciate the new clarification, however we would like to ask the IASB to make additional explanations and give more guidance about the practical dimensions of the term “different basis“ in situations in which a reporting entity is no longer a going concern for both preparer and auditor.

We would like to thank you for the opportunity to comment on the Exposure Draft: Conceptual Framework for Financial Reporting and hope that you will find our comments useful.
We would be delighted to answer any further questions that you may have.
