
Dear Board Members,


This response summarizes the views of our country, collected through polls and outreach with focus groups interested in the issue, in accordance with the invitation made by the FACPCE to all the mentioned groups, usually participating in the process of analysis of the IASB exposure drafts.

The meeting was conducted on 4th December in the FACPCE offices and attended members of the “Big Four”, academics and members of the “Argentinian Accounting and Auditing Standards Board” (CENCyA)

Due-process

The discussions in regard to the 2013 ED were held within a group integrated by the participants to the mentioned meeting, and the opinions where summarized in a work-paper whose content was circulated between the participants to obtain his final consensus on the redaction.

Overall comments

The overall opinion of those who attended to the meeting or sent their opinions by email strongly supports the proposed changes and additions to the existing Conceptual Framework for Financial Reporting (CFFR). We observed some differences of opinion with respect to some of the proposed changes, but nothing that detracts in any way from the project. In each of our responses to the specific questions raised in the DP, we present the consensus response, followed, as applicable, by the exceptions to the consensus response.

In the attachment you will find our responses to most of the specific questions raised in the DP. These responses represent the consensus of groups throughout Argentina interested in the development of International Financial Reporting Standards (IFRS).

Nevertheless, we want to drive your attention to one particular aspect we consider very important and therefore we want to ask for the attention of the Board.

In sections 9.48 and 9.49, the Discussion Paper links the concepts of capital maintenance with IAS 29 and say that “the concepts of capital maintenance are probably most relevant for entities operating in high inflation economies”. Then, continue saying that “the IASB believes that the issues associated with capital maintenance are best dealt with at the same time as a possible project on accounting for high inflation rather than as part of the Conceptual Framework project”.

In our opinion these statements reflect the confusion between the concepts of capital maintenance and the concept of unit of measurement (currency unit to be used as functional currency).
In our opinion:

- The conceptual framework should address the issue of the “unit of measurement” and therefore have to include definitions about the conditions that make a particular currency acceptable. In other words, the conceptual framework should establish when the changes in the purchasing power of a certain currency during a certain period of time will make this currency unacceptable as a unit of measurement, except restating the amounts measured using the mentioned currency to recognize the effect of inflation.
- The conceptual framework should also define the capital maintenance concept to be adopted. We consider that only the financial capital maintenance should be acceptable. Other alternatives are not used in practice and generally are contradictory with many of the applicable IFRS; therefore our proposal is not to include the alternatives in the conceptual framework.

It should be clear that the same concept of financial capital maintenance applies either in a stable economy or in an inflationary or hyperinflationary economy. The level of inflation rate doesn’t modify the concept of capital maintenance but the conceptual framework can require inflation adjustment in order to use a unit of measurement that satisfy the condition of consistent and homogeneous value through time.

If you have any questions about our comments, please contact facpce@faczpe.org.ar

Yours sincerely,

Dr. Daniel Carlos Feldman                Dr. Ramón Vicente Nicastro
Secretary                                Chairman
Section 1 – Introduction

<table>
<thead>
<tr>
<th>Question 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paragraphs 1.25–1.33 set out the proposed purpose and status of the Conceptual Framework. The IASB’s preliminary views are that:</td>
</tr>
<tr>
<td>(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</td>
</tr>
<tr>
<td>(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.</td>
</tr>
</tbody>
</table>

Do you agree with these preliminary views? Why or why not?

The participants were divided as to whether the CFFR should be part of IFRS and therefore normative, as opposed to solely being a tool for the development and maintenance of IFRS. Our country has developed a CFFR that is normative and considered to be constitutional in nature, thereby not allowing the issuance of individual standards that conflict with some aspect of the local CFFR.

We believe that the use of the CFFR as the basis for the development of individual standards that do not violate such CFFR promotes a principles-based approach and minimizes the use of rules in individual standards. In the absence of guidance on any particular accounting issue, we believe the CFFR should always be used and followed.

The participants were divided in their assessment as to whether the CFFR should remain as it is today or whether the CFFR should be elevated to the highest level of hierarchy in IFRS. While all agreed that the number of inconsistencies or conflicts between the CFFR and individual standards should be minimized, some are unconvinced that any change from the existing hierarchy is necessary.

Those in favor of a change in hierarchy -

It is very important to take into account that the majority of the participants, in favor of a change in hierarchy, are not suggesting that individual standards not be respected in those cases where an inconsistency or a conflict with the CFFR currently exists.

Rather, they believe that going forward, the issuance of a standards or an interpretation that is inconsistent or in conflict with the CFFR be prohibited, as opposed to what is included in paragraph 1.32 of the DP which states:

“Although the Conceptual Framework should guide the IASB when it develops new Standards, there may be rare cases when applying some aspect of the Conceptual Framework does not produce financial information about the reporting entity that is useful to the users of the financial statements. In such cases, the IASB may decide that it needs to issue a new or revised Standard that conflict with that aspect of the Conceptual Framework in order to meet the overall objective of financial reporting. This Discussion Paper proposes that, in such a case, the IASB should describe the departure from the Conceptual Framework, and the reasons for it, in the Basis for Conclusions on that Standard.”
Some have argued that in those rare cases where the IASB, for good reasons, decides to issue a new or revised standard that conflicts with some aspect of the CFFR, the IASB should simultaneously initiate a review of the specific section of the CFFR to determine whether or not an amendment to the CFFR should be made to eliminate the conflict.

They have also shown certain fear about the possibility that an Entity, when developing its own accounting policy, select to use one based in Standards of other country in conflict with the CFFR. In their opinion it must be crystal clear that the only one who can override the CFFR is the IASB trough it standards setting process.

Consistent with those members of the TWG that are in favor maintaining the hierarchy as is, this group also believes that all existing inconsistencies or conflicts should be eliminated as soon as possible either through an amendment or improvement of a particular standard to conform to the CFFR, with the individual standard continuing in force in its entirety until amended, or an amendment of the CFFR. To do otherwise could result in chaos with some entities following a particular standard and others not, based on their respective assessments of the existence of a conflict with the CFFR.

Those in favor a maintaining the hierarchy as is -

The primary concern of those in favor of not changing the hierarchy is the potential for preparers to come to different conclusions and interpretations regarding the application of individual standards of IFRS, which could significantly impair the transparency, consistency and comparability of financial information.

Section 2 – Elements of financial statements

<table>
<thead>
<tr>
<th>Question 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>The definitions of an asset and a liability are discussed in paragraphs 2.6–2.16. The IASB proposes the following definitions:</td>
</tr>
<tr>
<td>(a) an asset is a present economic resource controlled by the entity as a result of past events.</td>
</tr>
<tr>
<td>(b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.</td>
</tr>
<tr>
<td>(c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.</td>
</tr>
<tr>
<td>Do you agree with these definitions? Why or why not? If you do not agree, what changes do you suggest, and why?</td>
</tr>
</tbody>
</table>

There is general support for the revised definitions of assets, liabilities and economic resources. The whole group believes that the proposed new definitions are clearer and more precise and will avoid many of the inconsistencies that currently exist between the CFFR and individual standards.
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?

We found general support for the proposals. The group agrees with the idea of removing the expected outcome concept from the definitions of assets and liabilities. They also agree with not establishing a numerical minimum threshold of probabilities for the recognition of assets and liabilities.

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 don’t have additional comments to make about it.

We agree that it be helpful for the Conceptual Framework to identify them as elements of financial statements.

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 found unanimous support for the preliminary conclusion to retain the existing definition of a constructive obligation. On the other hand, some find the concept of economic compulsion difficult to understand and would definitely like more guidance in this regard. In our opinion the application of the concept in IFRIC 21 produce information clearly against the common sense and doesn’t produce information necessary to the proper understanding of the entities financial information.

**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.

The participants expressed a preference for View 2 with respect to the definition of a present obligation, i.e. that a present obligation must have arisen from past events and to be practically unconditional. Some gives some merit to vision 3 but depending in different interpretations of the proper meaning of each of the visions.

**Question 7**

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

According to our response to question 5, the definitions of asset and liability should consider the effect of situations when the entity, acting in a rational way, is compelled to act in a certain way.
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?

We agree with the recognition criteria included in the discussion paper.

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 agree with the alternatives views proposed to be developed by the IASB as adequate for the proper treatment of derecognition of assets and liabilities.

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

Question 10

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

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

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

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

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

(c) an entity should:

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

(ii) 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?

We found unanimous support for the preliminary views regarding the definition of equity and distinction between liabilities and equity instruments.

Section 6 – Measurement

<table>
<thead>
<tr>
<th>Question 11</th>
</tr>
</thead>
<tbody>
<tr>
<td>How the <strong>objective</strong> of financial reporting and the qualitative characteristics of useful financial information affect <strong>measurement</strong> is discussed in paragraphs 6.6–6.35. The IASB’s preliminary views are that:</td>
</tr>
<tr>
<td>(a) the objective of measurement is to contribute to the faithful representation of relevant information about:</td>
</tr>
<tr>
<td>(i) the resources of the entity, claims against the entity and changes in resources and claims; and</td>
</tr>
<tr>
<td>(ii) how efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s resources.</td>
</tr>
<tr>
<td>(b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;</td>
</tr>
<tr>
<td>(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;</td>
</tr>
</tbody>
</table>
(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?

We found unanimous support for the preliminary views regarding the objectives and selection of an appropriate measurement of components of the financial statements. There is strong support for a mixed measurement model. We consider necessary to call the attention about the situation that can be created by the application of fair value in the context of paragraph 6.64. Departure of the cost method must be restricted exclusively to situations when fair value clearly reflects the situation in a better way.

**Question 12**

The IASB’s preliminary views set out in Question 11 have implications for the subsequent measurement of assets, as discussed in paragraphs 6.73–6.96. The IASB’s preliminary views are that:

(a) if assets contribute indirectly to future cash flows through use or are used in combination with other assets to generate cash flows, cost-based measurements normally provide information that is more relevant and understandable than current market prices.

(b) if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant.

(c) if financial assets have insignificant variability in contractual cash flows, and are held for collection, a cost-based measurement is likely to provide relevant information.

(d) if an entity charges for the use of assets, the relevance of a particular measure of those assets will depend on the significance of the individual asset to the entity.

Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

In general, we found strong support for the preliminary views regarding the subsequent measurement of assets. Nevertheless, we believe that current replacement cost should be added to the option of the cost-based model in those cases where ultimate future cash flows are influenced by changes in replacement costs. When the cost of raw materials is very significant to the total cost of the related finished goods such that the selling price of the inventory is influenced by changes in replacement cost
of the raw materials, measurement of those raw materials at replacement cost is appropriate.

**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 found unanimous support for the preliminary views regarding the subsequent measurement of 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 (ie the asset or the liability is highly leveraged).

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

We found unanimous support for the preliminary views regarding the measurement of financial assets and financial liabilities.
**Question 15**

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

We don’t have any additional comments on the discussion of measurement in Section 6.

**Section 7 – Presentation and disclosure**

**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*.

We support the preliminary views regarding the scope and content of presentation and disclosure guidance that should be included in the CFFR.

**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?

We found unanimous support for the preliminary views regarding no need to expand or modify the discussion of materiality in the existing CFFR.

**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?

We support the preliminary views regarding the form of disclosure requirements, including consideration of the addition of communication principles to the CFFR.

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

**Question 19**

The IASB’s preliminary view that the *Conceptual Framework* should require a *total or subtotal for profit or loss* is discussed in paragraphs 8.19–8.22.

Do you agree? Why or why not?

If you do not agree do you think that the IASB should still be able to require a total or subtotal profit or loss when developing or revising particular Standards?
We found unanimous support for the preliminary conclusion to continue to require a subtotal profit or loss in the statement of comprehensive income. We consider necessary that a unique total including all the subtotals are presented to comply with the financial capital maintenance concept.

**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, ie 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 found unanimous support for the preliminary view that the CFFR should require that items of income and expense previously recognised in OCI to be recognised subsequently in profit or loss (recycled). A proper definition of the OCI concept makes necessary than, when the item no more comply with the concept, to be recycled to profit or loss.

**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.

Our constituents agree that the narrow approach to other comprehensive income (OCI) is the right answer. We consider that all re-measurements must be recycled since failure to recycle an item of OCI to profit and loss results in that item never impacting earnings per share, which is obviously based on profit and loss.

We agree with paragraph 8.53 of the DP that if recycling would not result in relevant information in any subsequent period, such item of income or expense should not be eligible for recognition on OCI. Many argue that this is the case for re-measurements of the net defined benefit liability (asset) recognized in OCI pursuant to paragraph 120(c) of IAS 19, Employee Benefits, which pursuant to paragraph 122 of IAS 19 are not recycled; accordingly, they believe that re-measurements of the net defined benefit liability (asset) should be recognized directly in profit or loss.

* End of the document. **