29 January 2014

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Hans

RESPONSE TO DISCUSSION PAPER ON A REVIEW OF THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Discussion Paper A Review of the Conceptual Framework for Financial Reporting (the DP) issued by the International Accounting Standards Board (the IASB) in July 2013.

General

We strongly support the IASB’s efforts to undertake a review of the existing Conceptual Framework for Financial Reporting (CF) as a high-priority project as well as its decision to adopt a single-phased approach for the remaining topics in the CF. We laud the IASB’s commendable progress in developing discussions on a broad range of conceptual issues in the CF, and firmly believe that a sound CF is vital to the development of high quality Standards that are principle-based and internally consistent.

At the project level, we are supportive of the IASB’s approach to improve the CF by updating the CF to reflect the IASB’s current thinking on conceptual issues and filling in existing gaps. We believe it is important that the IASB addresses any existing gaps in the CF by fundamentally considering the conceptual principles, instead of confining discussions within the boundaries of its current thinking on these topics. We particularly welcome the IASB’s focus on addressing the conceptual issues relating to other comprehensive income (OCI), and the concerns that IFRS disclosure requirements are not always focused on the right disclosures and are too voluminous. In addition, we consider that the concept of business model has the potential to be an overarching concept underpinning quality financial reporting and ought to be further developed by the IASB at the conceptual level. We also recommend that the concept of prudence as described in the pre-2010 CF, i.e. the inclusion of a degree of caution in the exercise of judgements under conditions of uncertainty, should be reinstated in the CF.
However, we have some concerns about the approach taken by the IASB to update concepts and fill in gaps in the CF. For example, the IASB has proposed to include exceptions at the conceptual level, such as the classification of puttable instruments as equity instruments, which we believe would undermine the credibility and robustness of the conceptual discussions in the DP. Besides, the number of issues that the IASB has proposed to be dealt with only at the Standards level suggests that the concepts proposed in the DP may not be sufficiently robust or that there is a need for the IASB to undertake further work on certain conceptual issues. In our view, the notion of unit of account, the role of economic compulsion, and the accounting for executory contracts would warrant further discussion in the CF, rather than being relegated to the Standards level. We also caution that the IASB should be mindful not to attempt to address known gaps, such as the conceptual issues on OCI, by fitting current accounting rules and conventions into principles to serve as concepts in the CF, instead of undertaking a fundamental consideration of concepts that should guide financial reporting.

Specifically on the DP discussions, we are broadly supportive of the IASB’s preliminary views on the definitions of assets and liabilities, recognition and derecognition, measurement, and presentation and disclosure. However, we have concerns about the additional guidance on identifying present obligations and past events in the liability definition as well as the proposal to remeasure and present wealth transfers between different classes of equity claims. We are also concerned with the IASB’s approach to addressing conceptual issues surrounding OCI by continuing to treat profit or loss (P/L) as the default category, and urge the IASB to undertake a fundamental reconsideration of OCI by defining P/L – a deeply entrenched notion of performance measure – in terms of financial performance, which would logically guide the recognition of OCI items and the timing of OCI recycling.

Our comments on the specific questions in the DP are as follows:

**Section 1: Introduction**

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<td>Paragraphs 1.25–1.33 set out the proposed purpose and status of the <em>Conceptual Framework</em>. The IASB’s preliminary views are that:</td>
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<td>(a) the primary purpose of the revised <em>Conceptual Framework</em> is to assist the IASB by identifying principles that it will use consistently when developing and revising IFRSs; and</td>
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<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 <em>Conceptual Framework</em>. If this happens the IASB would describe the departure from the <em>Conceptual Framework</em> and the reasons for that departure, in the Basis for Conclusions on that Standard.</td>
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Do you agree with these preliminary views? Why or why not?

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Purpose of the CF

We agree that the primary purpose of the revised CF is to assist the IASB by identifying principles that it will use consistently when developing and revising IFRSs because focusing on the needs of the IASB when setting Standards will help to provide better targeted concepts for the revised CF.

However, we disagree that some parts of the CF are reserved only for the IASB’s use, such as the proposed guidance on when an item of income or expense could be presented in OCI. If the CF is intended to guide the IASB in developing new or revised IFRSs, there is no conceptual basis why the principles therein should not serve as guidance to preparers when they develop and apply accounting policies in the absence of specific IFRS guidance. We believe that all parts of the CF should be useful as guidance for preparers in the absence of IFRSs that apply specifically to particular transactions, and recommend that the IASB should remove the proposed prohibition that prevents preparers from using some parts of the CF.

Status of the CF

We think that exceptions to, or conflicts with, the CF are inevitable in reality since the concepts in the CF cannot be reasonably expected to deal with the specificity of different transactions that could possibly exist in practice as well as new transactions that have evolved over time which were not contemplated when the CF was written.

We agree that in those cases, the IASB should describe any departure from the CF, and clearly state the rationale for it, in the Basis for Conclusions on those IFRSs, so as to preserve the credibility of the CF. We further believe that it is important for the IASB to establish a process to identify conflicts between the CF and the individual IFRSs, so as to minimise any significant departures between the CF and IFRSs over time. Such a process would ultimately ensure application consistency of CF principles in IFRSs and minimise accounting diversity for transactions that are not covered in existing IFRSs.

In addition, we note that in cases where there are no specific IFRSs dealing with particular transactions, it is unclear whether priority should be placed on IFRSs that do not conflict with the revised CF when considering the applicability of existing IFRS requirements under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Specifically, IAS 8 requires an entity to refer to, and consider the applicability of, the requirements in IFRSs dealing with similar and related issues when developing and applying accounting policies in the absence of specific IFRS guidance dealing with a particular transaction. There may be more than one such IFRS to analogue to if multiple IFRSs deal with similar issues, and of those IFRSs, some may conflict with the revised CF because they were written under the existing CF, or they are those cases where the IASB decided to depart from the revised CF in order to meet the overall objective of financial reporting. As such, we recommend that the IASB should provide clarity as to whether priority should be placed on IFRSs that do not conflict with the revised CF in such instances.

Furthermore, we believe that the IASB should also provide clarity on whether and how the revised CF should, or should not, be used in the interpretation of IFRSs that were developed under the existing CF.
Section 2: Elements of Financial Statements

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| 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? |

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| 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 liability exists. If there could be significant uncertainty about whether a particular type of asset or a 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? |

Subject to our comments to Question 10 below on the distinction between liabilities and equity instruments, we agree with the proposed definitions of an asset, a liability and an economic resource, which confirm more explicitly that an asset or a liability is a resource or an obligation, rather than the inflow or outflow of economic benefits that the item may generate, and that an item must be ‘capable of’ generating, rather than ‘expected’ to result in, an inflow or outflow. We believe that the proposed definitions would remove any source of confusion between the resource or obligation and the resulting flows of economic benefits, as well as the possible interpretation of ‘expected’ as conveying a probability threshold.

We also agree that in cases where it is uncertain whether a particular type of asset or liability exists (i.e. existence uncertainty), the CF should not set any probability thresholds to preclude
such an item from meeting the definition of an asset or a liability as such cases are likely to be rare. We further agree that they should be dealt with at the Standards level.

Please refer to our comments under Question 8 for our response to Question 3(c).

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<td>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?</td>
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We agree that the existing definitions of income and expenses, which are based on changes in assets and liabilities, should be retained in the revised CF. We also agree that it is not necessary to identify separate elements of income or expense in the CF so as to distinguish revenue from gains and expenses from losses, which is better carried out as part of the project to review Standards on financial statement presentation, or differentiate income and expense reported in P/L from income and expense reported in OCI, which is likely to be more appropriately dealt with in the form of presentation guidance in the CF.

Based on the description of elements in the DP, we agree that it would be helpful to identify cash receipts and cash payments as elements of the Statement of Cash Flows (SCF) as well as contributions to and distributions of equity as elements of the Statement of Changes in Equity (SCE). We consider cash receipts and payments as well as contributions to and distributions of equity to be broad classes of items that share similar characteristics and form the building blocks from which the SCF and SCE are constructed. However, we disagree that ‘transfers between classes of equity’ should be identified as an element of the SCE as we believe that the objective of general purpose financial reporting is to provide decision-useful information about economic phenomena that affect the reporting entity, rather than economic phenomena that only affect its equity holders.

**Section 3: Additional Guidance to support the Asset and Liability Definitions**

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<td>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? If not, why not?</td>
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**Legal and constructive obligations**

We agree with the IASB’s preliminary view that the definition of a liability should encompass both legal and constructive obligations, and to add more guidance to help distinguish constructive obligations from economic compulsion. We believe that including constructive obligations would result in a more faithful representation of the underlying economic reality and that adding more guidance on constructive obligations would provide more clarity when determining the existence of constructive obligations, thereby improving the consistency in application in different situations.

**Guidance on constructive obligations**

Besides the constructive obligations as described in the DP, in particular ‘other parties can reasonably rely on an entity to discharge its duty or responsibility as a result of its past actions’, we think that a form of constructive obligation could also exist when circumstances other than the entity’s past actions have caused other parties to reasonably rely on the entity to act in a certain way such that those parties would benefit or would not suffer loss or harm, and as a result, created a duty or responsibility on the entity to undertake that particular action. For example, a newly setup entity could arguably have a duty or responsibility to pay discretionary bonus, when industry practice has led its employees to reasonably rely on it to make such payouts, notwithstanding that it would not possibly have a past practice of paying such bonus. We think that including such an obligation in the definition of a liability is likely to result in a more faithful representation of the underlying economic reality and recommend that the IASB should consider further analysis on this area.

The above example also suggests that economic compulsion has a role in determining whether a constructive obligation exists, notwithstanding that economic compulsion does not, in itself, amount to a constructive obligation. The fact that an entity may be economically compelled to take certain action does not, in itself, create an obligation on the entity. However, when that economic compulsion causes other parties to reasonably rely on the entity, and hence creates a duty or responsibility on the entity to take that particular action such that those parties would benefit or would not suffer loss or harm, it could be argued then that economic compulsion has resulted in an obligation on the entity to fulfil its duty or responsibility to those parties. We think that the concept of economic compulsion has a role in financial reporting at the conceptual level and warrants further analysis by the IASB. Please refer to ‘Other Comments’ section below for our further comments on the role of economic compulsion in financial reporting.

In addition, one could infer from the strict reading of the guidance on constructive obligations in the DP that a constructive obligation could also exist for an entity’s duty or responsibility to holders of its equity instruments (in their capacity as holders of equity instruments) when the latter can reasonably rely on the entity to fulfil that duty or responsibility as a result of its past actions. As such, constructive obligations could arguably exist for undeclared discretionary dividends on equity instruments of entities with stable dividend payments. We do not believe that this outcome is appropriate because the entity has no obligation to pay discretionary dividends that have yet been declared, similar to other cash flows of the underlying equity instruments. We recommend that the guidance on constructive obligations should be refined to preclude an entity’s duty or responsibility to holders of its equity instruments in that particular capacity.
We also note that there is a possible drafting issue in paragraph 3.50 of the DP, which requires, as a pre-requisite for constructive obligation, an entity to have a duty or responsibility, in the absence of a contract or legal requirement, to another party or parties, i.e. ‘those to whom, or on whose behalf, the entity is required to transfer an economic resource’. This is because in some cases, such as environmental restoration obligations, the other party who would benefit (or suffer loss or harm) if the entity fulfils (or fails to fulfil) its duty or responsibility is strictly speaking not the party who has received the economic resource that the entity has transferred, or on whose behalf the entity has transferred the economic resource, to fulfil its obligation. We believe that the IASB should address this drafting issue.

**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 disagree with all three views presented in the DP. We believe that View 1 and View 2 could result in liabilities that are recognised too late, while View 3 could result in liabilities that are recognised too early. In particular, View 1 would not result in a liability even if a past event has occurred and the entity’s future actions triggering a transfer would be practically impossible to avoid. On the other hand, View 3 would result in a liability even if the entity expects to avoid the future action that would trigger a transfer. While View 2 appears to take a less extreme stance, the DP’s examples of conditions that an entity might have no practical ability to avoid (e.g. conditions that the entity could avoid only by ceasing to operate as a going concern, significantly curtailing operations or leaving specific markets) suggest a high
threshold that would preclude the recognition of liabilities that could reasonably result in a transfer of economic resources.

Moreover, it is unclear whether the IASB had intended for the DP discussions on the three views to be applied to constructive obligations that depend on an entity’s future actions, e.g. non-contractual bonus that is payable to each employee who completes 2 years of service. One could infer from the IASB’s preliminary view on the definition of a liability that these DP discussions apply to all obligations that depend on the entity’s future actions, whether legal or otherwise. Another interpretation is that these DP discussions apply only to legal obligations, since the thresholds for View 1 and View 2 are visibly incompatible for constructive obligations and as suggested by the examples in the DP, and that constructive obligations would be assessed based on the ‘reasonably rely’ threshold, whether or not they depend on the entity’s future actions.

Regardless of the interpretation, we believe that a constructive obligation that depends on an entity’s future actions, a legal obligation that depends on an entity’s future actions and an ‘unconditional’ constructive obligation are in substance similar. In all three cases, the entity has the unilateral right, whether or not through its future actions, to avoid the transfer of economic resources, albeit with some consequences. Furthermore, in the case of ‘unconditional’ constructive obligations and constructive obligations that depend on an entity’s future actions, an entity arguably has the practical ability to avoid the transfer of economic resources in both situations given the non-enforceability of constructive obligations. We therefore consider that there are conceptual merits in applying similar principles to all three cases when determining whether or not a present obligation exists.

In addition, applying different thresholds to these obligations could produce inconsistent and incomprehensible outcomes. For example, a constructive obligation exists if other parties can reasonably rely on an entity to discharge its duty or responsibility as a result of its past actions. However, if that constructive obligation is conditional on its future actions, the entity could still conclude that a present obligation does not exist if a threshold higher than ‘reasonable’ is applied to constructive obligations that depend on an entity’s future actions. In particular, we note that an entity would never have a present obligation for constructive obligations that depend on its future actions under View 1 and View 2.

We consider that applying a threshold that corresponds to the ‘reasonably rely’ threshold for constructive obligations as discussed in the DP, such as ‘no reasonable ability to avoid’, to obligations (constructive or otherwise) that depend on an entity’s future actions would not only eliminate the aforesaid tensions regarding the application of different principles to in-substance similar obligations, but more importantly, would result in more appropriate outcomes as illustrated in the following example: an entity has a legal obligation to make payments when a specified sales level is achieved. Although the entity has the practical ability to avoid making the payments (e.g. by cutting down its marketing efforts), it would not do so and has a reasonable expectation of achieving the specified sales level. The entity would conclude that a present obligation exists if a ‘no reasonable ability to avoid’ threshold is applied, which we believe would result in an outcome that better reflects the underlying economic reality.

We note that the ‘no reasonable ability to avoid’ threshold is, in substance, a form of economic compulsion, in that an entity may be economically compelled not to take a
particular action to avoid the transfer of economic resources because that action is so much more economically disadvantageous, or less economically advantageous, than the alternative of fulfilling or settling the obligation. We believe that incorporating the concept of economic compulsion in determining whether a present obligation exists in situations in which the transfer of economic resources depends on an entity’s future actions, is likely to result in more faithful representation of the economic reality.

**Question 7**

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

*Definition of ‘past event’*

The DP proposes to define a liability as a present obligation of the entity to transfer an economic resource as a result of past events.

We believe that the DP does not contain sufficiently robust discussions on which activity would result in a ‘past event’, when an obligation to transfer an economic resource is incurred as a result of an entity conducting *more than one activity* at different points in time. For example, a government imposes a levy on entities that supply electricity to a domestic energy market on 31 December each year. The levy charged on that date is measured as a percentage of the operator’s revenue during the year. The conundrum is whether the past event is operating in the specific market (a) only on 31 December or (b) during the year.

Past event could be interpreted from paragraph 3.65 of the DP as the occurrence of the specified *activity* for which another party can seek payment from the entity (narrow interpretation) or any activity that contributes to the other party’s right to seek payment from the entity (broad interpretation). In the above example, the entity could conclude that the past event is either operating in the market on 31 December under the narrow interpretation, or the generation of sales during the year under the broad interpretation. Past event could also be inferred from paragraph 3.66 of the DP as the occurrence of the activity that determines the *amount* of liability. We are concerned that in the absence of clear principles that guide how past events should be determined in such situations, different bases or criteria could result at the Standards level.

In addition, we note that the narrow interpretation of paragraph 3.65 could lead to different conclusions on when a liability exists, depending on the sequence of the activities. In the example above, the entity is likely to recognise a liability only on 31 December, i.e. the other activity of generating sales during the year does not result in a liability. In contrast, if the levy is imposed on 1 January each year but is similarly measured as a percentage of the entity’s revenue during the year, the entity could conclude that a liability already exists on 1 January since the past event has occurred and created an obligation that depends on its future action on that date. We question whether the different outcomes are appropriate when the entity does not have a reasonable ability to avoid the transfer of an economic resource in both scenarios. Furthermore, tension could result when the narrow interpretation of paragraph 3.65 interacts with paragraph 3.66 of the DP. In the example above, the reading of paragraph 3.66 could lead to the conclusion that the past event is the generation of sales, which is the basis...
on which the amount of liability is determined and contradicts the outcome under the narrow interpretation of paragraph 3.65.

Moreover, we believe that applying paragraph 3.66 of the DP could be problematic when the activity that determines the amount of liability occurs after the other activity. For example, an entity that is operating in a market on 31 December 20X2 is required to pay a levy based on X% sales in the following period, i.e. 20X3. One could conclude from paragraph 3.66 that past event is the generation of sales in 20X3 and the entity does not recognise a liability on 31 December 20X2. If this outcome indeed reflects the IASB’s thinking, its appropriateness is questionable since an obligation appears to exist on 31 December 20X2 and it is only the amount that is uncertain.

We therefore urge the IASB to develop further guidance in the CF on which activity would constitute the past event when an obligation to transfer an economic resource is incurred as a result of an entity conducting more than one activity at different points in time, and to address the above tension points and potential inappropriate outcomes.

**Guidance on ‘constructive’ concept for assets**

We note that although the DP includes detailed discussion of constructive obligations, there is barely any discussion on the concept of ‘constructive assets’, other than an acknowledgement that such assets could exist. We think that tension could arise between the ‘constructive’ concept and the ‘control’ notion in the asset definition (i.e. the present ability to direct the use of the economic resource so as to obtain the economic benefits that flow from it), which appears to be a higher threshold than the former. As such, we recommend that the IASB should include further discussion of and guidance on the ‘constructive asset’ concept.

**Executory and forward contracts**

Generally, we think that the DP does not contain sufficiently robust discussions in the area of executory and forward contracts and recommend that there should be further discussion and guidance in the CF.

Firstly, the DP merely states that ‘in principle, a net asset or liability arises under an executory contract if the contract is enforceable’, without elaborating on the concepts underpinning this statement. We believe that the IASB should address how the unit of account has been considered in reaching the conclusion that rights and obligations arising under an executory contract should be accounted for as a net asset or liability.

Secondly, in respect of the recognition of rights and obligations arising under executory contracts, we believe that further discussion and guidance on this area should be included in the CF to address gaps in an area where existing guidance is either lacking or inconsistent between Standards. For example, a contract to buy (sell) a non-financial item that requires gross settlement is not recognised until either party has started performing its obligations. In contrast, another contract to buy (sell) a non-financial item that permits net settlement in cash or another financial instrument is recognised on the commitment date, unless it is entered into and continues to be held for the purpose of the receipt (delivery) of the non-financial item in accordance with the entity’s expected purchase, sale or usage requirements.
Finally, we believe that since the DP proposes measurement guidance in the CF for assets and liabilities, such guidance should also include considerations for executory contracts, rather than simply relegating this to the Standards level as proposed in the DP.

Section 4: Recognition and Derecognition

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| 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 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?

Subject to the drafting comments below, we agree that an entity should recognise all its assets and liabilities, unless a particular asset or liability meets the conditions for non-recognition as proposed in the DP. However, we disagree that the exceptions should be determined only by the IASB at the Standards level, as we are concerned that entities would be required to search extensively for potential rights and obligations that are not dealt with by specific IFRSs, even though they would have, in principle, met the conditions for non-recognition.

Subject to our comments above, we consider the proposed recognition criteria to be an improvement over the recognition criteria in the existing CF, since it would likely lead to the recognition of more assets and liabilities, which should, in theory, provide relevant information about, and more faithful representation of, an entity’s resources and obligations as well as the changes in these items. In particular, we note that the inclusion of a probability threshold for recognition would result in a failure to recognise some items (such as options) that are undoubtedly assets or liabilities, but are judged at a particular time to have a low probability of resulting in an inflow or outflow of economic benefits. Such items may also swing above or below the threshold as probability changes. The non-recognition of such items begs the question of whether financial statements provides a complete depiction of an entity’s resources and obligations, and hence a faithful representation of the entity’s financial position and performance. Notwithstanding so, we appreciate that recognition may not be appropriate in certain situations such as when the uncertainty about inflows or outflows of economic benefits makes an item so difficult to measure that recognising it does not result in relevant information (e.g. if the range of possible outcomes is extremely wide and the likelihood of each outcome is exceptionally difficult to estimate), or the probability of an inflow or outflow of economic benefits may be so low that users of financial statements are unlikely to include such information in their analysis.
We suggest that the IASB address a possible drafting issue in paragraph 4.25 of the DP, which implies that the cost constraint only relates to ‘relevance’ in paragraph 4.25(a) and not to ‘faithful representation’ in paragraph 4.25(b). We believe that the cost constraint should apply to both fundamental qualitative characteristics of useful financial information.

**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 IASB’s preliminary view that an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. In other words, the derecognition criteria for an asset would focus on the control of the asset and the derecognition criteria for a liability would focus on whether the entity still has the liability. We believe that the control approach as described in the DP should be consistently applied to both recognition and derecognition of assets and liabilities. This would enhance the comparability of financial statements and result in a more neutral and faithful depiction of an entity’s resources and obligations.

However, we recognise that there could be situations where an entity retains a component of an asset or a liability that exposes it disproportionately to the remaining risks and rewards arising from the previously recognised asset or liability. For example, in the case of a sale of receivables with partial recourse, an entity may retain substantial credit risk arising from the receivables even though it loses control of the asset. We believe that the CF should not include exceptions to the proposed control approach to derecognition at the conceptual level to deal with such situations as it would discredit the arguments underpinning the proposed approach. We therefore agree that, in such cases, the IASB should determine at the Standards level how the entity would best portray the changes that resulted from the transaction, which could include the approaches discussed in paragraph 4.50 of the DP.

The DP also discusses the full and partial derecognition approaches in accounting for transactions that eliminate some but not all of the rights and obligations contained in an asset or a liability. We agree that the decision on whether to apply a full or partial derecognition approach depends on the ‘unit of account’, and believe that the CF should establish broad
principles on the factors to consider when determining the appropriate ‘unit of account’. Please refer to Section 9 below for our further comments on the ‘unit of account’.

**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?

**Definition of equity**

We agree with the IASB’s preliminary view that the definition of equity in the existing CF should be retained and support the notion of equity being a residual element on the Statement of Financial Position (SFP). Building on the notion of ‘residual’, equity could arguably exhibit characteristics such as participation in net assets (e.g. pro-rata share of net assets and net income/expense) and loss absorption features. As such, certain instruments that oblige an entity to transfer economic resources *only* because of redemption features (mandatory or at the option of holders) or embedded put options would have characteristics that are otherwise consistent with a residual interest. It is debatable whether accounting for such instruments as liabilities would faithfully represent the economic substance or provide relevant information.
for making decisions about providing resources to the entity. Hence, we consider that further work is required to identify principles that should be used to determine equity instruments.

**Distinction between liabilities and equity instruments**

We agree, in principle, that the CF should state that the definition of a liability should be used to distinguish liabilities from equity instruments (i.e. the ‘strict-obligation’ approach). We believe that the ‘strict obligation’ approach is superior in most respects to the alternative ‘narrow equity’ approach considered in the DP, in that the ‘strict obligation’ approach is consistent with the definition of a liability and provides information about equity instruments that create a prior (higher-ranking) claim and affect the returns to existing holders of other classes of equity claims by reporting each class of equity claim separately in the SCE.

However, consistent with our comments on the definition of equity, we consider there is a need to refine the definition of liability to address possible classification issues relating to redeemable or puttable instruments that would otherwise exhibit the characteristics of equity instruments. This could be a conceptually superior approach to treating certain puttable instruments as equity instruments, as compared to the DP’s proposal to have an exception to the definition of equity in the CF to provide a concept that underlies the existing exception in IAS 32 *Financial Instruments: Presentation* to treat some puttable instruments as equity instruments, even though such instruments create an obligation to transfer economic resources and hence meet the definition of a liability. Furthermore, we think that the definition of liability should also be refined to capture in-substance liabilities in the absence of an obligation to transfer economic resources, such as obligations to be fulfilled by the issuance of an entity’s own equity instruments as ‘currency’ (e.g. equity instruments are, in substance, used as currency in situations where an entity is obliged to transfer a variable number of the instruments that is equivalent to a fixed value).

**Remeasurement of each class of equity claim**

We disagree with the proposal to present ‘wealth transfers’ between different classes of equity claims. While we appreciate that the proposal to remeasure equity claims to show ‘wealth transfers’ between different classes of equity claims may in theory provide information that could be somewhat useful to holders of different classes of equity claims, we believe that it is questionable whether the proposal is necessary to achieve the objective of general purpose financial reporting and whether the benefits of such information would outweigh the costs of periodic remeasurement.

Specifically, we note that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. However, the remeasurement of equity claims depicts economic phenomena affecting the entity’s equity holders, but not the reporting entity itself, as no changes in the entity’s net assets occur as a result of changes in the value of its equity instruments to the equity holders.

In addition, we note that information in the SCE about the impact of dilutive instruments on different classes of equity claims would be incomplete as the dilutive effect of derivatives on own equity under which an entity does not have an unconditional right to avoid the transfer of economic resources (e.g. written put options over own equity) would not be reflected in the

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SCE since these instruments would meet the definition of liabilities and would be classified as such.

We are therefore not convinced that the benefits of periodic remeasurement of equity claims would justify its costs.

**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. 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?

We broadly support the DP discussions and believe that establishing clear concepts in the CF on the measurement objective and principles would lead to a more consistent, principle-based and conceptually defensible approach in how the IASB would determine the appropriate measurement for a particular asset or liability in the individual Standards.
Objective of measurement

We agree that defining the measurement objective in the CF would in theory underpin the development of principle-based measurement requirements that faithfully represent economic phenomena and produce relevant information about the financial position and performance of an entity, amidst the myriad of measurement bases that exist in IFRSs.

We also agree with the broad principles of the IASB’s preliminary view on the objective of measurement, which is developed based on the objective of financial reporting and the fundamental qualitative characteristics of useful financial information as prescribed in the CF. However, we note that the proposed measurement objective may not provide discernible incremental value over the guidance that already exists in the CF, if not merely to bring more focus on those aspects of the existing guidance that ought to drive measurement considerations.

Number and types of measurement bases

We agree with the IASB’s preliminary view that a single measurement basis for all assets and liabilities may not provide the most relevant information, notwithstanding that it would result in all amounts in the financial statements having the same meaning and totals/subtotals that are more understandable. We appreciate that each particular asset or liability type is different in nature and has different economic characteristics, and that the faithful representation of relevant information about each asset or liability type would necessitate the use of different measurement bases. Moreover, we are not convinced that all reported amounts having the same meaning would necessarily enhance the understandability of financial statements, especially when these amounts barely have any resemblance to the manner in which the asset or liability would be realised or settled, and the ultimate cash flows differ significantly from any expectations derived from the reported amounts.

That said, to enhance the understandability of financial statements, we agree that the number of different measurements used should be the smallest number necessary to provide relevant information, and that unnecessary or necessary measurement changes should be avoided or explained as the case may be.

Furthermore, we agree that the initial and subsequent measurement should be kept consistent to the extent possible. Applying the same measurement both on, and subsequent to, initial recognition would not only enhance the understandability of the resulting measures, but would also avoid reporting certain gains or losses that are not represented by economic phenomena. For example, the DP discussions suggest that an entity should measure an executory contract to buy a property that would be recognised at cost using cost-based measurements, and as a result, the property would be measured at the contracted price on initial recognition. If the property is to be subsequently measured using a different measurement such as current market prices, any economic gain or loss arising from the executory contract would be recognised as a change in the current market price of the property as though it has occurred after the purchase transaction, rather than as a result of the transaction, which is potentially misleading.
Subject to our comments below, we also support the DP discussion on the types of measurement (e.g. cost-based measurements, current market prices, cash-flow-based measurements) and believe that these discussions should be incorporated into the CF. We consider that clear articulation of the concepts for each of these measurements would lead to more consistent measurement requirements across Standards as the IASB develops and revises IFRSs.

We believe that the CF should establish clearer principles on the components of cash-flow-based measurements that are other than current market price estimates. Currently, the requirements for such measurements are determined at the Standards level and vary across existing IFRSs. The DP discusses various factors that are considered, but does not address when and how these factors should be considered when determining the appropriate cash-flow-based measurement for a particular asset or liability. In the absence of broad principles that guide the determination of an appropriate cash-flow-based measurement, differences across Standards would continue to exist, which could be seen as rule-based requirements that diminish the understandability of financial information. Without an established set of principles in the CF, and coupled with different requirements that exist in IFRSs, there is a risk that practice diversity could emerge for transactions that are not dealt with by specific IFRSs as preparers include different combinations of factors to determine their cash-flow-based measurements. Accordingly, we recommend that the IASB should establish principles in the CF on when and how the various factors should be considered when determining the appropriate cash-flow-based measurement.

Besides, the absence of broad principles on cash-flow-based measurements could also have unintended consequences on the presentation of OCI under Approach 2A discussed in Section 8 in the DP. In particular, Table 8.2 in the DP indicates that changes in the discount rate embedded in the cash-flow-based measure of insurance contract liabilities qualify as a bridging item, which suggests that the remaining components of the cash-flow-based measure recognised in P/L are consistent with the results of a clearly describable measure. The loosely defined cash-flow-based measurement and the variants that exist currently bring into question whether removing any component(s) of a cash-flow-based measurement would still result in a ‘meaningful, understandable and clearly describable’ measure under Approach 2A, and hence, allow the removed component(s) to be presented in OCI as a bridging item.

In addition, we believe that the CF should define ‘cost’ and provide further guidance on the concept of ‘cost’ for non-arm’s length transactions such as related party transactions, unconditional gifts or grants. For transactions that involve an exchange of items with different value, determining cost under the current practice based on the fair value of consideration could result in a failure to recognise an unstated aspect of the transaction, an economic gain or an economic loss, which would not faithfully represent the economic substance of these transactions (e.g. when a parent sells an asset to its subsidiary at a discount, recognising the asset at fair value and the discount as capital contribution by the subsidiary is likely to better portray the economic substance of the transaction). The latter would also lead to the recognition of a subsequent loss (e.g. impairment loss for an asset that is initially measured at more than its recoverable amount), as though the loss has occurred after the transaction, rather than as a result of the transaction, which is potentially misleading. For non-exchange transactions, measuring the item at zero is indistinguishable from non-recognition and is unlikely to provide relevant information. In this regard, we note that the DP contains some discussions on this topic but it is unclear whether the IASB intends to carry
through the discussions into the revised CF. We recommend that the IASB should address this topic in the revised CF and possibly consider using current market price as deemed cost for such transactions.

**Identifying an appropriate measurement**

We agree with the IASB’s preliminary views that it should consider what information a particular measurement would produce in both the SFP and the Statement of Comprehensive Income (SCI), and that the relevance of that 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 the entity’s future cash flows, subject to the cost constraint. Measurement affects both the SFP and SCI and selecting measurements by considering either statement alone is unlikely to produce the most relevant information. Besides, measuring a particular item based on how an asset or a liability of that type will contribute to an entity’s future cash flows would reflect the manner in which the entity expects to realise the asset or settle/fulfil the liability (i.e. from the entity’s perspective). We believe that a measurement approach that takes into consideration the ‘business model’ concept would necessarily produce relevant information about the entity’s prospects for future cash flows, which would in turn provide information that is useful in making decisions about providing resources to the entity.

Notwithstanding the above, we note that there could be different interpretations of how an asset or a liability will contribute to an entity’s future cash flows should be assessed. One possible interpretation is that the measurement should reflect the market participants’ perspective of how a particular asset or liability should contribute to future cash flows, which could be different from how the entity expects to realise the asset or settle/fulfil the liability. We believe that the assessment should be made from the entity’s perspective and recommends that the IASB should clarify as such in the CF.

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<thead>
<tr>
<th>Question 12</th>
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<tr>
<td>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:</td>
</tr>
<tr>
<td>(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.</td>
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<td>(b) if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant.</td>
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<tr>
<td>(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.</td>
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<td>(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.</td>
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<tr>
<td>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...</td>
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Subject to our comments below, we agree with the IASB’s preliminary views on (a) to (c) in this question.

We appreciate that cost-based measurements would provide more relevant information for (i) assets that are used in operations since past transactions and margins can be used to assess prospects for future cash flows, and (ii) financial assets with insignificant variability in contractual cash flows and are held for collection because cost-based interest income and impairment expense are likely to provide relevant information about effective yield and collectability, which affect the returns of such assets. In both cases, current market prices are not expected to be realised and are unlikely to provide relevant information about the entity’s prospects for future cash flows. In contrast, current market exit prices would be most appropriate for assets that are held for sale because such assets produce direct cash flows through sale.

However, we believe that the CF should provide further guidance on how an entity should determine the manner in which an asset would contribute to future cash flows when it expects to realise the value of the asset in more than one way. This is highlighted in the following scenarios:

(a) An airline uses aircraft in its operations to generate income and has a policy of replacing the aircraft at the end of 5th year for safety reasons. The aircraft would contribute to future cash flows through use as well as sale.

(b) An entity holds debt instruments both to collect contractual cash flows as well as for sale, with the aim of maximising total returns. The debt instruments would contribute to future cash flows through collection as well as sale.

(c) An entity cultivates trees for both their lumber and their fruits (i.e. consumable bearer biological assets). The trees would contribute to future cash flows through use as well as sale.

We think that one possible solution to issues relating to multiple cash flow streams is to overlay the measurement principles with the ‘business model’ concept. An entity’s business model would usually give an indication of the primary use of a particular asset or the type of measurement that is likely to provide more relevant information about how that asset would contribute to future cash flows. This approach could lead to the conclusion that cost-based measurements are more appropriate for the aircraft in example (a) above, while current market prices provide more relevant information about the debt instruments in example (b) above. We acknowledge that the consideration of business model may not adequately address certain scenarios (possibly such as example (c) above), and considers that such transactions are better dealt with at the Standards level.

In addition, we disagree with the IASB’s preliminary view on (d) in this question, i.e. the relevance of a particular measurement for charge-for-use assets (i.e. assets that an entity charges for the right to use and continues to recognise in their entirety) will depend on the significance of the individual asset to the entity, i.e. cost-based measurement would provide relevant information about the prospects for future cash flows for large groups of low-value...
items, while current market prices would be more relevant for high-value items. Since the manner in which the charge-for-use assets contribute to future cash flows is the same whether or not such items are significant, we believe that there is no conceptual basis for using a different measurement between high-value and low-value items.

Accordingly, we recommend that the CF should establish measurement principles that can be applied consistently to all charge-for-use assets, whether or not they are significant to the entity. In our view, current market prices are likely to provide more relevant information about charge-for-use assets’ prospects for future cash flows since they include an estimate of cash flows arising not only from existing charge-for-use contracts but also from future contracts and ultimate sale.

We are also concerned that the DP discussion of ‘a current exit price is the most appropriate measure for assets that will be realised through sale’ may not be sufficiently robust. In particular, the DP explains that although inventories will be sold, they are similar to assets that are used in that they cannot generate cash flows independently of the other assets of the entity, and hence cost-based measurement is more relevant. Paragraph 6.80(a) of the DP further implies that the nature of an asset and/or the existence of an active market have a role in determining the measurement for assets that would be realised through sale.

Applying the ‘business model’ concept, we think that the purpose and key drivers of the sale has a role in determining whether cost-based information or current market price is likely to be more relevant for assets that would be realised through sale. For example, cost-based measurements are likely to be more appropriate for assets that are expected to be realised through recurring sales in the ordinary course of business whereby an entity’s decisions about such sales are not primarily driven by current market prices, as cost-based information about past cash flows and margins would provide information about prospects for future cash flows and margins. In contrast, current market prices are likely to provide more relevant information about future cash flows for other assets that would be realised through sale, such as assets that are held for investment or short-term profit taking purposes, given that current market prices are arguably the key driver of such sales.

**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 generally agree with the IASB’s preliminary views on the subsequent measurement of liabilities.

We appreciate that cost-based measurements are likely to be more relevant for (i) contractual obligations with insignificant variability in contractual cash flows and are expected to be settled according to terms as cost-based interest expense is likely to provide relevant information about the cost of funding, and (ii) contractual obligations for services that are expected to be fulfilled through own performance since measuring them at cost (e.g. based on proceeds received) provides information about recurring components of P/L that can be used to derive expectations about future margins. We also appreciate that current market exit prices are likely to be more appropriate for liabilities that will be transferred because such information reflects the amount required to induce another party to assume the obligation.

We further agree that cash-flow-based measurements could be the only viable measurement for liabilities without stated terms (e.g. litigation-related obligations), and are likely to provide more relevant information about future cash flows than cost-based measurements for liabilities with stated terms but with highly uncertain settlement amounts that have not yet been determined (e.g. insurance contract liabilities).

However, we recognise that the DP discussions on the uncertainty about how an item would contribute to future cash flows are particularly relevant for an entity’s own financial instruments in that the entity expects to settle the instruments at their stated terms but may nonetheless redeem these instruments and reissue new instruments at more favourable terms to reduce the cost of funding if market conditions change over time. Nonetheless, we think that measurement should reflect current plans, expectations and strategies, and that cost-based measurement provides more relevant information about the cost of funding and eliminates the counter-intuitive effects relating to own credit risk that result from current market price measurement.

**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?

We appreciate that, in certain cases, basing measurement on the way in which the asset contributes to future cash flows, or the liability is settled or fulfilled, may not provide information that is useful when assessing prospects for future cash flows. In particular, we agree with the IASB’s preliminary view that current market prices, rather than cost-based measurements, are likely to provide the most relevant information about the cash flows that will result from financial assets that are held for collection, or financial liabilities that are settled according to their terms, in situations identified in paragraph 6.19 of the DP.

Question 15

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

We agree with the DP discussions that requiring or permitting the same measurement for related assets and liabilities may provide more useful information, particularly when the cash flows from these items are contractually linked. We appreciate that using different measurements for related or contractually linked assets and liabilities would create measurement mismatches and result in financial statements that do not faithfully represent an entity’s financial position and performance.

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 the 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 welcome the IASB’s move to establish broad but clear presentation and disclosure principles in the CF that would help the IASB develop specific disclosure requirements in the individual Standards. We are also cautiously encouraged by the IASB’s separate Disclosure Initiative that is intended to address the more immediate disclosure issues, and together with the principles in the CF, has the potential to address concerns that existing disclosure requirements in IFRSs do not always focus on the right disclosures or are too voluminous.

Scope and content of guidance in CF

We generally support the IASB’s preliminary views on the scope and content of the presentation and disclosure guidance in the CF.

However, we observe that it is unclear whether and how the CF would interact with IFRS Practice Statement Management Commentary: A framework for presentation (the Practice Statement). Specifically, paragraph BC11 of the Practice Statement states that ‘management commentary is within the boundaries of financial reporting and within the scope of the CF.’ However, we note that the CF is designed to guide the development of new/revised IFRSs and management commentary is not within the scope of IFRS. We recommend that the IASB should clarify whether the principles in the CF should or could apply to management commentary, and if so, consider whether further guidance should be developed to address information that is presented outside the financial statements.

In addition, as a side point, while we agree that the CF should only include broad principles that guide the development of specific disclosure requirements at the Standards level, the ability of the IASB to streamline excessive disclosures and to promote more relevant disclosures hinges not only on whether the Disclosure Initiative delivers as intended, but also on a mindset shift by stakeholders in how disclosure requirements are applied. Accordingly, we believe that it is critical that the IASB should:

(a) as a priority, establish broad but clearly articulated disclosure principles in the CF to shape the development of Standard-level disclosure guidance that would help preparers to provide more relevant information and to reduce clutter concurrently;
(b) apply the disclosure principles in the CF when it undertakes the medium-term projects under the Disclosure Initiative (i.e. Standard-level review of disclosures, and IAS 1, IAS 7 and IAS 8 replacement project) or develops disclosure guidance for new/revised IFRSs;

(c) actively engage international regulatory and professional bodies (e.g. International Organization of Securities Commissions, International Forum of Independent Audit Regulators, International Federation of Accountants) as well as investor groups to achieve commonality in views on disclosures (including the concept of materiality); and

(d) develop education materials, which are carefully worded not to read as additional requirements or perpetuate IFRS principles and guidance as rules and checklists, to help preparers develop capabilities to exercise professional judgement when applying disclosure guidance in IFRSs.

**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 consider the concept of materiality in the existing CF to be sufficiently clear, but recognise that its application could have created certain disclosure issues in practice.

Accordingly, we agree with the IASB’s proposal not to amend or add to the guidance in the CF on materiality, and support education material to be developed to enable preparers and users of financial statements to develop capabilities to exercise professional judgement when assessing materiality in the context of disclosures. In particular, we think that the IASB’s proposal to emphasise in education material the need to assess the materiality of each disclosure requirement individually (i.e. just because a line item in a primary financial statement is determined to be material does not automatically lead to the conclusion that all IFRS disclosures pertaining to that line item are material), amongst others, could help to reduce boilerplate disclosures and encourage the disclosure of specific information that is material to the understanding of the amount recognised for a particular line item as well as the risks and uncertainties relating to that line item.

That said, education material should avoid illustrating quantitative thresholds in a manner that could be construed as bright-lines, but providing clear-cut examples also does little to help preparers and users develop the necessary capabilities to exercise professional judgement. As such, we consider that education material would best serve its purpose when it achieves a balance between providing guidance that would help in the application of principle-based disclosure requirements while allowing judgement to be duly exercised.
**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 IASB’s preliminary views that it should consider the communication principles in paragraph 7.50 of the DP when it develops or amends disclosure guidance in IFRSs.

We agree that disclosure guidance that is premised on the above communication principles has the potential of promoting disclosure as a form of effective communication guided by Standards, rather than a mechanism to comply with specific requirements of Standards.

**Section 8: Presentation in the SCI – P/L and OCI**

**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 amending Standards?

**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 are concerned with the approach taken by the IASB in the DP to address the conceptual issues relating to OCI, including the role of OCI in reporting financial performance, and whether and when OCI should be recycled. In particular, the IASB has relegated P/L, a deeply entrenched notion of performance measure, as a default category and put forth non-conceptual quick fixes, such as the proposed Approach 2B to distinguishing P/L and OCI, as possible solutions to addressing conceptual issues. We believe that the IASB should
fundamentally reconsider the approach to OCI by defining P/L in terms of financial performance, which would logically guide the recognition of OCI items and the timing of OCI recycling, and addressing the conceptual issues on OCI recycling.

In our view, although all changes in an entity’s resources and claims (other than those arising from contributions from or distributions to equity holders) would provide information about an entity’s financial performance, some changes are likely to be more relevant than others in assessing the entity’s prospects for future margins and cash flows. This necessitates the use of different measurements in the SFP and P/L to communicate different facets of information about an entity’s financial performance.

Following from the above, we appreciate that the notion of P/L is deeply entrenched in the economy, business and investors’ minds, and that users incorporate P/L in their analyses, either as a starting point for further analysis or as the main indicator of an entity’s performance. We can also appreciate the argument that P/L as a total or subtotal is likely to have more predictive value than total comprehensive income (TCI) as it excludes certain remeasurement gains or losses that are potentially less predictive of future cash flows, either because they are not likely to persist or recur, are subject to future changes in estimates or prices, or result from factors that tend to unwind automatically over the life of the remeasured asset or liability. Accordingly, we agree with the IASB’s view that the CF should require a total or subtotal for P/L.

That said, we disagree, on a conceptual basis, with the IASB’s preliminary view to treat P/L as the default category and to distinguish P/L and OCI by describing the types of items that should be recognised in OCI. This view contradicts P/L as an important performance measure – the premise for retaining P/L as a total or sub-total – which necessarily requires P/L to be properly defined in terms of financial performance, rather than a residue of all items that do not qualify for OCI recognition. We believe that P/L should be a defined category, i.e. all items of income and expense that do not meet the definition of P/L would be recognised in OCI. We consider (i) the current thinking in the DP on P/L, being the primary indicator of the return made on resources, and (ii) the use of the ‘business model’ concept to determine what information should be included in P/L, based on how resources have been used under the business model during the period, to be a plausible starting point for further work. For example, charge-for-use income/expense based on a cost-based measurement could be reported in P/L to depict the primary return that an entity has made on its charge-for-use assets, such as investment properties, during the period, while other changes in the fair value measure of these assets would be recognised in OCI.

Under this approach, all items that were previously recognised in OCI should be recycled to preserve the integrity of P/L as an important performance measure that would provide information relevant to assessing decisions about providing resources to the entity. Although we acknowledge that reclassification adjustments that result from OCI recycling, in themselves, may not meet the definition of income or expense in the CF or faithfully represent economic phenomena of the period in which they are recognised, we can practically appreciate that the resulting measure in P/L, which incorporates the effects of reclassification adjustments, has the potential to provide relevant information about economic phenomena of the current period, and when read together with the reclassification adjustments, meets the definition of income or expense in the CF.
Accordingly, we urge the IASB to develop an appropriate, robust and operational definition of P/L, which would logically guide the timing of OCI recycling, and to undertake targeted outreaches with users of financial statements to identify the characteristics of items of income and expense that are useful in assessing an entity’s financial performance for a period and prospects for future returns.

Notwithstanding the above, we acknowledge that obtaining broad consensus on how P/L should be defined could be a considerable challenge given the wide spectrum of information needs of users of financial statements and the different measures that are currently used to evaluate financial performance across sectors. We are prepared to accept P/L as a default category with properly defined OCI, on pragmatic grounds, provided that the IASB has attempted to define P/L in the CF project, and having gone through its normal due process, failed to develop a generally accepted definition of P/L.

**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.

If no consensus could be reached on how P/L should be defined as a performance measure, we can appreciate that the principles underpinning Approach 2A could provide a reasonable basis for distinguishing P/L from OCI and would therefore warrant further analysis by the IASB. Approach 2A provides a clear framework on what is recognised in OCI and is more likely to result in the consistent use of OCI in IFRSs. We consider that requiring P/L to reflect a meaningful, understandable and clearly describable measure, when applied together with the concept of business model to determine the appropriate measure, has the potential to result in P/L that provides relevant and understandable information about the primary indicator of the return made on resources.

However, we believe that further work is required on what constitutes ‘meaningful, understandable and clearly describable measure’ and whether components recognised in OCI would necessarily have an inherent meaning. For example, charge-for-use assets that are measured at fair value on the SFP could in theory result in cost-based measure in P/L when such a presentation enhances the relevance of P/L. Depending on how the derecognition principles are intended to be applied, changes in fair value of such assets could result from the consumption of economic benefits embedded in the assets for which both compensation received and depreciation have been recognised in P/L. It is questionable whether the amount recognised in OCI, which includes various components of different nature and economic characteristics, would have an inherent meaning that is understandable to users of financial statements.
At the conceptual level, we believe that all items previously recognised in OCI should be recycled to P/L because recycling results in the ultimate recognition in P/L of all items of income and expense, which protects the integrity of P/L as the primary depiction of the return made on an entity’s resources, and the resulting measure in P/L is likely to provide relevant information about economic phenomena of the current period. That said, we recognise that recycling in certain situations may not be practicable or operational, e.g. the existing practical challenges with impairment assessment for equity investments measured at fair value through OCI, and consider that specific considerations on cost constraint and operational practicability are best dealt with at the Standards level.

Furthermore, we think that Approach 2A has the potential to address key concerns on OCI, including the perception that OCI has become a ‘dumping ground’ for anything controversial, and to instil greater discipline in presenting items of income and expense in P/L to faithfully portray the results of management’s decisions on the use of an entity’s resources.

In contrast, we believe that Approach 2B would not adequately address existing concerns about OCI since it essentially allows all contentious items to be presented in OCI so long as the IASB considers that doing so would enhance the predictive value and understandability of P/L. We are concerned that Approach 2B appears to be the result of an attempt to fit existing accounting constructs into certain desired characteristics of OCI, which is in substance a status quo approach, rather than a fundamental reconsideration of the conceptual principles that should guide the recognition of specific items of income or expense in OCI.

The above concerns aside, we also question (i) the information value of the cumulative amounts in OCI and the reclassification adjustments that are eventually recognised in P/L, which would not reflect the results of an understandable measure, and (ii) the conceptual basis for non-recycling of certain OCI items, which runs contrary to the widely held view that P/L should provide the primary source of information about returns in a period.

As for Approach 1, while we appreciate the conceptual merits of requiring all items of income and expense to be recognised in SCI only once (i.e. a measurement that is relevant in the SFP would logically produce relevant information about the financial performance, and this approach removes conceptual issues surrounding OCI recycling as discussed under Question 20 above), we are concerned that the outcome may not meet the information needs of users of financial statements, in that it conflicts with the notion of P/L as a deeply entrenched financial measure and may obscure certain relevant information necessary to assess an entity’s future margins and cash flows. We acknowledge that appropriate disaggregation of information could be a solution, but that would require the IASB to develop an entirely new principle-based framework for disaggregation and to give due consideration for potentially excessive information on a primary financial statement.

Accordingly, if the IASB were to proceed with treating P/L as the default category, we would recommend that the IASB should further develop the principles underpinning Approach 2A as a conceptual basis for distinguishing P/L and OCI. However, we acknowledge that incorporating Approach 2A into the CF would create conflicts with certain existing Standards. While we agree that any amendments to existing Standards to rectify conflicts created by the revised CF should go through the IASB’s normal due process for agenda consultation, it is important that the IASB identifies potential conflicts as part of the CF project so that appropriate assessment can be made on prioritising competing projects.
Section 9: Other Issues

Question 22

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.

Subject to our comments below, we generally agree with the IASB’s preliminary view not to fundamentally reconsider Chapters 1 and 3 of the existing CF. These chapters were revised only in 2010 after having gone through the IASB’s normal due process and there is no evidence of fundamental flaws that have since emerged and would require fixing.

In particular, we do not see the need to reintroduce the terms ‘stewardship’ and ‘reliability’ in the CF. The existing CF has retained the concept of stewardship in that users of financial statements need information about how effectively and efficiently the entity’s management and governing board have discharged their responsibilities. Although the existing CF has replaced reliability with the fundamental qualitative characteristic of faithful representation, both concepts have much in common, e.g. both require neutrality, completeness and freedom from error, and we do not believe that reinstating references to the remaining aspects of reliability, i.e. prudence and substance over form, would significantly affect how useful information is determined under the CF.

Notwithstanding the above, we can appreciate that giving due consideration to ‘prudence’ as it was described in the pre-2010 CF, i.e. the inclusion of a degree of caution in the exercise of judgements under conditions of uncertainty, is likely to prevent the recognition of assets or income when there is significant uncertainty and the use of overly optimistic estimates or judgements under conditions of uncertainty, which could counter any natural bias toward optimism and complement the notion of ‘neutrality’. Accordingly, we recommend that this concept of prudence be reinstated in the CF.

Question 23

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?

We support, in principle, the IASB’s preliminary view 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. We consider that business model has an important role in financial reporting, particularly so in measurement, distinction between P/L and OCI, and presentation and disclosure. At the conceptual level, measuring and reporting resources, claims and financial performance to reflect an entity’s business model would logically result in a faithful representation of economic reality and produce relevant information that enables users to assess prospects for future net cash inflows. As mentioned under Sections 6 and 8 above, we think that business model could be a solution to some of the measurement and OCI issues. The consistent use of the business model concept across Standards would also enhance the understandability of financial information.

Accordingly, we believe that the business model concept has more potential in contributing to the objective of financial reporting than is suggested in the DP, but can appreciate that determining the business model could be subjective, e.g. how the level of aggregation should be determined when identifying business model(s) amongst various operations and activities within the entity. We strongly recommend that the use of business model should be explicitly incorporated into the CF, and not referred to on an ad-hoc basis at the Standards level, and that the IASB should further develop this concept, including the appropriate level of aggregation, as part of the CF project, in terms of sufficiently broad principles that would not result in industry-specific guidance.

Question 24

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?

We disagree with the IASB’s preliminary view that the unit of account will normally be decided when the IASB develops or revises particular Standards. We note that the unit of account has implications across various aspects of financial reporting, including recognition and derecognition, measurement, presentation and disclosure. Currently, there are differences across Standards as to how the unit of account is determined, e.g. risk components of and specifically identified cash flows from financial instruments, significant parts for depreciation of non-financial assets, units of equity instruments for fair value measurement of investment.
in subsidiary, associate and joint venture, and cash-generating units for impairment of non-financial assets. The absence of established broad principles in the CF means that the unit of account is likely to evolve over time. A case in point is the unit of account used in the leases proposals, which is the economic benefits embedded in the physical asset, rather than the asset as a whole.

While we acknowledge that resolving the unit of account conceptually for a broad range of transactions could be challenging, we do not consider the principles in the DP to be adequate to deal with different notions of the unit of account that exist in practice. We believe that the CF should establish broad principles on the factors to consider when determining the unit of account, which possibly include (i) the economic characteristics of the item (e.g. whether rights and obligations arising from the item are capable of being the subject of separate transactions, or whether different items share similar risk characteristics), (ii) the business model under which the item is held (e.g. reflect the manner in which an entity expects to realise future cash flows from the item), and (iii) the interaction with the notion of ‘control’ and ‘risks and rewards’ (e.g. what is the unit of account when an entity does not have control of an asset but retains substantial risks and rewards associated with that asset). Accordingly, we recommend that the IASB should further develop the notion of the unit of account as part of the CF project.

**Question 25**

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?

We are concerned with the direction and focus of the DP discussions on the going concern assumption. On one hand, there is brief mention of situations in which the going concern assumption is relevant, which suggests that the IFRS requirements are applicable even when the going concern assumption is inappropriate. On the other hand, the DP bases almost its entire discussions on the going concern assumption, which brings into question the applicability of IFRS requirements when financial statements are prepared on other than going concern basis.

We further understand that there is a perceived lack of guidance under IFRSs when the going concern assumption is inappropriate because existing requirements are generally developed on the assumption that financial statements are prepared on a going concern basis.

Accordingly, we consider there is a need to clarify whether the CF should establish principles that would guide the development of IFRS requirements for financial statements that are prepared on other than going concern basis, and if so, to incorporate in the CF broad principles on how IFRS requirements should apply when the going concern assumption is inappropriate. In addition, if this is indeed the IASB’s intention, we think that there are other situations in which the going concern assumption is relevant, such as the assessment of control in the asset definition (e.g. when investors’ agreement requires the transfer of joint assets to the other investors in the event that one investor is unable to continue in operation as
a going concern), the relevance of current market prices for assets when realisation through an orderly transaction is no longer an option, and current/non-current classification of financial liabilities with event of default clauses.

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<th>Question 26</th>
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<td>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.</td>
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<td>Do you agree? Why or why not? Please explain your reasons.</td>
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We agree that concepts of capital maintenance are important because only income earned in excess of amounts needed to maintain capital can be regarded as profit, and hence should be retained in the CF. However, we observe that the physical concept of capital maintenance has hardly been used in existing IFRSs, which seems to imply that it may not be very relevant for financial reporting purposes.

That said, we can appreciate that the concepts of capital maintenance are especially relevant for entities operating in high inflation economies, and that issues associated with capital maintenance, including whether capital maintenance adjustments should be presented in equity or a separate non-recyclable category of OCI, are best dealt as a separate project concurrently with a possible project on IAS 29 Financial Reporting in Hyperinflationary Economies, rather than as part of the CF project.

Other Comments

Role of ‘economic compulsion’

We note that the DP does not define economic compulsion but suggests that some people consider an entity to be economically compelled to take a particular course of action in the future if that action will be so much more economically advantageous, or less economically disadvantageous, than any of the available alternatives.

The DP further states that economic compulsion does not, in itself, amount to a constructive obligation, but acknowledges that it might be appropriate to take economic compulsion into account when determining whether a contractual claim against the entity is a liability or part of equity, although the IASB thinks that any consideration for further guidance on this matter should be dealt with at the Standards level.

Whilst we appreciate that economic compulsion does not, in itself, lead to a present obligation, we consider economic compulsion to have a role in financial reporting at the conceptual level because an accounting that takes into consideration the concept of economic compulsion is likely to result in more faithful representation of the economic phenomenon or economic substance of a transaction. Examples of situations where ‘economic compulsion’ could have a role include:
(a) **Identifying a constructive obligation** – As discussed in Question 5, we think that economic compulsion could in some instances result in an obligation on an entity to fulfil its duty or responsibility to other parties such that those parties would benefit or would not suffer loss or harm, and hence, arguably has a role in determining whether a constructive obligation exists.

(b) **Identifying a present obligation if transfer of economic resources depends on an entity’s future actions** – As discussed in Question 6, we believe that applying the ‘no reasonable ability to avoid’ threshold, which takes into consideration the concept of ‘economic compulsion’, to determine whether a present obligation exists if the transfer of economic resources depends on an entity’s future actions, is likely to result in more faithful representation of the economic reality.

(c) **Liability-equity classification of financial instruments** – An issuer may have issued a perpetual instrument that is redeemable only by the issuer at a fixed date, but non-redeemption will increase future coupon payments by a sufficiently high amount such that the issuer will be economically compelled to redeem. We believe that the concept of economic compulsion has a role in assessing whether the perpetual instrument is a liability or equity.

(d) **Measurement of a lease liability** – In the case of a lease contract, one could argue that the pricing for the non-cancellable period and the extension option is interrelated and both components should be accounted for as a single unit of account. We believe that incorporating the concept of economic compulsion (e.g. significant economic incentive as proposed in ED/2013/6 Leases) to reflect an entity’s reasonable expectation of the lease term would result in an outcome that better reflects the economics of leasing arrangements.

Accordingly, we recommend that the concept of economic compulsion should be explicitly articulated in the CF and that the IASB should undertake further analysis on the role of economic compulsion on financial reporting at the conceptual level, including when and how economic compulsion should be considered.

**Own credit risk**

In our view, it is counter-intuitive to include in P/L gains/losses from changes in own credit risk that would not crystallise. This is the case for both funded and unfunded liabilities (derivatives) that would not be settled by way of a transfer, such as those described under Questions 14 and 15. For example, an entity’s credit deterioration would require such liabilities to be discounted at a higher rate and the recognition of resulting gains in P/L that would not crystallise when the liabilities are ultimately settled according to stated terms.

Crystallisation of gains/losses on own credit risk is generally only possible when the liability can be settled by a transfer or repurchased at current market prices, which is often not the case. This issue was particularly acute during the global financial crisis, primarily due to Standards-level requirements to recognise entire fair value changes in P/L and restrictions that prohibit financial liabilities to be reclassified out of held for trading, even when such liabilities could no longer be repurchased in the near term due to a loss of liquidity as a result of the entity’s credit deterioration.
We note that IFRS 9 *Financial Instruments* attempts to address the counter-intuitive outcome of own credit risk adjustment for funded liabilities but not unfunded liabilities, even when both would not be settled by way of a transfer. Specifically, effects of changes in own credit risk for funded liabilities are recognised in OCI, while those for unfunded liabilities are recognised in P/L. Although we appreciate the practical valuation difficulties in dealing with own credit risk adjustment for derivatives (i.e. Debt Valuation Adjustment), this inconsistent treatment lacks conceptual merits and provides opportunities for structuring activity in the financial markets.

As such, we believe that there is a need for the IASB to address the issues about own credit risk at the conceptual level. We consider that addressing such issues for both funded and unfunded liabilities that would not be settled by way of a transfer through an appropriate approach to distinguishing P/L and OCI, together with robust Standards-level guidance to determine when a liability is, or ceases to be, settled by a transfer, could be a possible starting point for further analysis by the IASB. Accordingly, we recommend that the IASB should undertake further analysis to develop concepts that address the own credit risk issue in the CF, and deal with Standards-level issues as part of its normal due process for agenda consultation.

We hope that our comments will contribute to the IASB’s deliberation on the DP. Should you require any further clarification, please contact us.

Yours faithfully

Suat Cheng Goh
Technical Director
Singapore Accounting Standards Council