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25 November 2015

Dear Sir

Exposure Draft ED/2015/3: Conceptual Framework for Financial Reporting

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network[1], this letter summarises views of member firms that provided comments on the ED.

We support many of the proposals in the ED, and encourage the IASB to progress quickly towards the issue of an updated Conceptual Framework. However, assuming that the ED is taken forward largely as drafted, we believe that there are associated considerations for the IASB's future agenda. There are also certain aspects of the ED that would benefit from some further clarification.

The IASB's future agenda

While we understand the reasons for the approach being followed, in particular to enable the revised Conceptual Framework to be issued in a relatively short period, we are disappointed that the distinction between liabilities and equity has not been considered in more detail. In that context, we strongly encourage the IASB to progress its standards level work in this area and to issue new requirements as soon as possible to replace the existing guidance in IAS 32 *Financial Instruments: Presentation.*

We also encourage the IASB to add, at a relatively early stage, projects to its active agenda that consider the most significant inconsistencies between its revised Conceptual Framework and existing Standards. Other than the distinction between liabilities and equity, we believe that if the definition of a liability is finalised largely as drafted in the ED, it would be appropriate for the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* together with the associated IFRIC 21 *Levies* to be revisited as soon as practicable.

We are also disappointed that the IASB has not been able to develop more robust, principles-based guidance to deal with the question of which items should be reported within OCI, and a more robust principle to be applied in deciding whether items initially recorded in OCI should subsequently be recycled to profit or loss and, if so, when. However, we again acknowledge

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the IASB's desire to finalise an updated Conceptual Framework within a relatively short period. Consequently, we support the completion of this part of the Conceptual Framework with the proposed description of the statement of profit or loss, combined with a further review of the use of OCI to the extent that this is possible within the project timetable (see our response to question 13), provided that a longer term project is initiated to develop a robust definition of profit or loss, with this being linked to the related use of OCI and requirements for recycling.

Prudence

While we do not object to the reintroduction of prudence to the Conceptual Framework, we believe that the IASB needs to explain more clearly in the Conceptual Framework itself how prudence should (and, importantly, should not) be applied. Although the IASB has included an explanation of its decisions in the Basis for Conclusions, this does not form part of the authoritative guidance.

We also suggest that it would be appropriate for an explicit statement to be included in the Conceptual Framework that asymmetric prudence is not appropriate unless, as an exception, the IASB has concluded that for the purposes of a particular Standard asymmetric prudence is consistent with faithful representation (such as the example of IAS 37 as noted in paragraph BC2.14). This would eliminate the potential for an entity to apply asymmetric prudence by referring to the Conceptual Framework using the hierarchy in IAS 8, if a particular issue is not covered by a Standard or Interpretation.

Derecognition

In our response to the Discussion Paper, we expressed significant concern at the suggested approach to derecognition, under which a 'pure' control analysis would be carried out, due to the potential for items to be derecognised when the reality is that there has been little or no change to an entity's economic exposure. We therefore welcome the proposed paragraph 5.29 which incorporates consideration of risks and rewards.

However, we believe that a stronger requirement to consider exposure to risks and rewards, as a component of an overall assessment of control, needs to be incorporated into the guidance, and have outlined suggested text in our response to question 7. We note that consideration of risks and rewards forms part of the control assessment in both IFRS 10 *Consolidated Financial Statements* and IFRS 15 *Revenue from Contracts with Customers*. Without an explicit requirement to consider exposure to risks and rewards, we are concerned that the principles in the Conceptual Framework for the derecognition of assets and liabilities could result in the inappropriate recording of changes in an entity's assets and liabilities when the economic reality is that there has been no substantive change.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Andrew Buchanan

Global Head of IFRS

Appendix

Question 1—Proposed changes to Chapters 1 and 2

Do you support the proposals:

(a) to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources;

(b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality;

(c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;

(d) to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and

(e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?

Why or why not?

a) Stewardship

We agree with the proposal to give more prominence to management's stewardship of the entity's resources. This links to the need for primary users of financial statements to be provided with information about the way in which, and how well, an entity's management has used its resources in the past, and will use them in future to generate cash flows.

b) Prudence

We acknowledge and understand the reasons why the IASB has proposed the reintroduction of prudence to the Conceptual Framework. As noted in our comment letter to the 2013 Discussion Paper, we do not object to this reintroduction, but do have some concerns, principally due to the risk that some might interpret 'prudence' and its application in an asymmetrical way, rather than in a way that supports neutrality.

We consider that there should be greater clarity in the Conceptual Framework itself, with the IASB explaining clearly how prudence should (and, importantly, how it should not) be applied. We suggest that it would be appropriate for paragraph 2.18 to be expanded to include an explicit statement that prudence does not mean asymmetric prudence, unless the IASB has itself concluded that, as an exception for the purposes of a particular Standard, asymmetric prudence is consistent with faithful representation (such as the example of IAS 37 in BC2.14). Although, as we suggested in our response to the July 2013 Discussion Paper, the IASB has included a clear explanation for its decisions in the Basis for Conclusions, we note that this does not form part of the proposed amendments to the Conceptual Framework itself. The concept of prudence, and the significant attention and discussions that have surrounded, and are likely to continue to surround, its use means that it is essential that this point is covered in the authoritative guidance.

It would also be appropriate to make reference to prudence as being applicable in the selection of an appropriate measurement base, in the context of neutrality and faithful representation. For example, for the purposes of recognition and measurement of a derivative contract that has been acquired for nil consideration (for example, an interest rate swap), a prudent approach is for subsequent measurement to be at fair value, reflecting changes in future cash flows that will arise from the derivative with those changes in cash flows having the potential to be very positive or negative. In contrast, an imprudent measurement approach would be historical cost, as this would fail to reflect future cash flows in the carrying amount of the derivative in an entity's financial statements. This would assist in addressing the mistaken view that historic cost is typically a more prudent measurement approach than current or fair value.

Similarly, prudence could be explained in the context of a level 3 valuation of a significant and highly volatile financial asset, with prudence being the consistent selection of a valuation which might be around the mid-point in an acceptable range, rather than consistent selection of the highest valuation derived from the model when the most optimistic input parameters have been selected.

c) Faithful representation

We agree, and note that consideration of the substance, rather than merely the legal form, of a transaction can be essential in determining an appropriate accounting approach (for example, when determining whether the transfer of a financial asset of financial liability to another party should give rise to the derecognition of that financial asset or financial liability).

d) Measurement uncertainty

We do not disagree with the proposed guidance. However, certain of the proposed clarifications for measurement uncertainty appear to be similar to a discussion of reliability, a term that the IASB decided not to reinstate.

It is not clear why measurement uncertainty has been included as an element of relevance, as there is also a link between measurement uncertainty and faithful representation (the latter having been a characteristic of reliability in the pre-2010 Framework).

We suggest that consideration is given to identifying reliability as an enhancing qualitative characteristic, with the proposed clarifications on measurement uncertainty being included within the related guidance. We believe that this would be better understood, with reliability being positioned in the way that many interpret the term (as discussed in BC2.22).

e) Relevance and faithful representation

We agree with the proposals.

Question 2—Description and boundary of a reporting entity

Do you agree with:

(a) the proposed description of a reporting entity in paragraphs 3.11-3.12; and

(b) the discussion of the boundary of a reporting entity in paragraphs 3.13-3.25?

Why or why not?

a) Description of a reporting entity

We agree with the proposals

b) The boundary of a reporting entity

We agree with the proposals for the boundary of a reporting entity. However, we do not agree with paragraph 3.25. The question of which financial statements should be prepared by an entity would appear to be a standards level question, and not one which should be addressed in a Conceptual Framework.

We note that the draft Conceptual Framework uses the terms 'consolidated' and 'unconsolidated' financial statements. It is not clear whether the approach set out for control is intended to be different from the approach which is included in IFRS 10 *Consolidated Financial Statements*. We assume that it is not, and suggest that the IFRS 10 descriptions of 'consolidated' and 'separate' financial statements are used instead.

Question 3—Definitions of elements

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

(a) an asset, and the related definition of an economic resource;

(b) a liability;

(c) equity;

(d) income; and

(e) expenses?

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

We agree with the proposed definitions. Although these would result in a wide range of items qualifying as assets and liabilities, we note that the recognition criteria in Chapter 5 would appear to provide a sufficiently robust framework for determining whether an asset or a liability should be recognised at an amount other than zero.

We note that the proposed definition of an asset includes a reference to 'past events'. However, the term 'past event' is discussed only in respect of a liability (paragraphs 4.36 - 4.39). It is also not clear whether or how an entity could ever control a present economic resource, without that control having been established by a past event.

Question 4—Present obligation

Do you agree with the proposed description of a present obligation and the proposed guidance to support that description? Why or why not?

We agree with the proposed description, and note that the requirement for a past event means that an entity would be unable to argue that it should provide for operating losses as it has no realistic ability to avoid continuing in business and incurring losses. An explicit reference to this point might be added.

However, we note that the terminology in paragraph 4.32 (which refers to a transfer being 'legally enforceable') is slightly different from that used in paragraph 4.20 for an asset (which notes that control usually arises from 'legal rights'). This might be taken to imply that there is a different threshold for the recognition of an asset and a liability. We suggest that paragraph 4.32 could be amended to read:

> 'An entity has no practical ability to avoid a transfer if, for example, the transfer arises from legal obligations, or any action....'

As noted in our response to the July 2013 Discussion Paper, the proposals would result in an outcome which is substantially different from that which currently arises from the application of IFRIC 21 *Levies* (which is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*). The IASB has acknowledged this inconsistency in paragraphs BCE.9 - BCE.11 of the Basis for Conclusions, noting that it is considering whether it should take on an active project to amend aspects of IAS 37. We believe that it is important that the IASB addresses the inconsistencies as soon as possible, and encourage the addition of IAS 37 to its active agenda as soon as practicable.

Question 5—Other guidance on the elements

Do you have any comments on the proposed guidance?

Do you believe that additional guidance is needed? If so, please specify what that guidance should include.

In the proposed definition of an asset, paragraph 4.11 notes that an entity cannot have a right to receive economic benefits from itself. The same principle applies to a liability, in that an entity cannot have an obligation to transfer economic resource to itself. This conclusion can be derived if paragraph 4.11 is read together with paragraph 4.25, which states:

> 'If one party has an obligation to transfer an economic resource (a liability), it follows that another party (or parties) has a right to receive that economic resource (an asset)....'

Consequently, if an entity cannot have a right to receive economic benefits from itself, and only has an obligation when another party has a right to receive economic benefits, then it follows that an entity cannot have an obligation to itself. However, it would be helpful for this to be stated explicitly.

We note that paragraph 4.23, which deals with whether an entity is a principal or an agent, is included within the definition of an asset. However, the issue applies to both assets and liabilities, and it would be appropriate for guidance to be included in a way that covers both assets and liabilities.

Paragraph 4.55(b) notes that terms which have no commercial substance could include:

> 'rights (including options) that the holder will not have the practical ability to exercise.'

It is not clear whether the meaning of 'practical ability' is intended to be the same as its meaning in the context of a present obligation, as discussed in paragraphs 4.32 - 4.35. It is also not clear how the IASB intends this aspect of the guidance to be applied, such as whether an assessment of 'practical ability' should be made at contract inception or both at contract inception and over time (we assume the latter).

We also suggest that a further subparagraph c) might be added to paragraph 4.55, which would mirror guidance which is currently included in IAS 32.25(a) and IFRS 9.B4.1.18:

c) terms that are not genuine (i.e. terms that only apply on the occurrence of an event that is extremely rare, abnormal and very unlikely to apply.

Question 6—Recognition criteria

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

In principle, we agree with the proposed approach to recognition, and with linking the recognition criteria to the qualitative characteristics of useful financial information in Chapter 2. However, it is not clear why recognising expenditure as an expense as incurred might provide useful information at a lower cost than recognising an asset. It would be helpful for this to be clarified; for example, did the IASB have in mind that if expenditure was capitalised as an asset, it might subsequently be necessary to carry out an impairment test?

The link to Chapter 2 means that our comment in response to question 1(d) is also relevant here. In our view, the guidance for existence uncertainty and separability (paragraphs 5.15 - 5.16), low probability of a flow of economic benefits (paragraphs 5.17 - 5.19) and measurement uncertainty (paragraph 5.20) relate to both relevance and to faithful representation. In our response to question 1(d), we suggest that consideration is given to identifying reliability as an enhancing qualitative characteristic, with the proposed clarifications on measurement uncertainty being included within the related guidance. Consistent with that view, we suggest that the guidance in paragraphs 5.15 - 5.20 is separated from the guidance about relevance and faithful representation, instead being included within a section headed 'enhancing qualitative characteristics' in a similar way to paragraphs 6.59 - 6.63 in Chapter 6.

Question 7—Derecognition

Do you agree with the proposed discussion of derecognition? Why or why not? If you do not agree, what changes do you suggest and why?

We note that the IASB has proposed an approach to derecognition which is 'normally' based on a control approach (paragraph 5.25). In our response to the July 2013 Discussion Paper, we noted significant potential deficiencies in basing derecognition only on control because this could result in derecognition when in reality a transaction has virtually no effect on the amount, timing and uncertainty of an entity's cash flows.

However, paragraph 5.29 notes that:

> 'If an entity retains exposure to positive or negative variations in the amount of economic benefits produced by an economic resource, this may indicate that the entity retains control of that economic resource, in which case, derecognition is not appropriate.'

We agree that this is a necessary additional step, which links to it being essential to include an analysis of exposure to risk and reward as a component of the control assessment. The proposed text goes some way in addressing the concerns that we raised in our previous comment letter. However, we believe that the language in paragraph 5.29 is insufficient and needs to be strengthened. We suggest that it is amended to read:

> 'If an entity retains exposure, whether directly or indirectly, to positive or negative variations in the amount of economic benefits produced by an economic resource (or an equivalent economic resource, particularly in, but not limited to, circumstances in which the economic resource is comprised of fungible items), this may indicate that the entity retains control of that economic resource, in which case, derecognition is not appropriate.'

Question 8—Measurement bases

Has the IASB:

(a) correctly identified the measurement bases that should be described in the Conceptual Framework? If not, which measurement bases would you include and why?

(b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?

a) Measurement bases

We agree that historical cost and current value are the most obvious categories and are frequently used in IFRS. However, we note that paragraph 6.18 discusses current cost, which is different from historical cost. We suggest that the 'historical cost' measurement basis is changed to a wider 'cost-based measures' with 'historical cost' (paragraphs 6.6 to 6.17) and 'current cost' (paragraph 6.18) being subsections, in the same way as 'fair value' and 'value in use and fulfilment value' are subsections of 'current value'.

b) Information provided by each measurement basis

Overall, we agree with the proposed guidance.

However, we note that the ED does not address aspects related to foreign currency. Paragraph BCIN.23 explains that this is because the IASB:

> 'considers that the concepts relating to....the translation of amounts denominated in foreign currency, would best be dealt with if the IASB were to carry out projects to consider revising Standards on these topics.'

We note that in the Request for Views: *2015 Agenda Consultation*, published in August 2015, the research project on foreign currency translation is inactive and is likely to be removed from the research programme.

Depending on the outcome of the agenda consultation, it is possible that the IASB will not plan to consider a standards level project for foreign currency translation. That being the case, because this topic is relevant to measurement, consideration should be given to including some discussion in the Conceptual Framework.

Table 6.1 - Information provided by various measurement bases

In the assets section, under the fair value heading, the text should be amended to be consistent with paragraph 6.21. Instead of referring to the price that would be received to *transfer* the asset, the reference should be to the price that would be received to *sell* the asset. The same comment applies to the value in use heading, which refers to future costs of transfer rather than costs of disposal. In addition, the references to transaction costs incurred on disposal (assets) and on settlement or transfer (liabilities) for value in use and fulfilment value should refer to expected transaction costs.

Question 9—Factors to consider when selecting a measurement basis

Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?

Paragraph 6.52 notes that:

> '....Initial measurement and subsequent measurement cannot be considered separately. If the initial measurement basis and subsequent measurement basis are not consistent, income and expenses will be recognised solely because of the change in measurement basis...'

We are not convinced that this is always the case. If subsequent measurement is based on historical (or amortised) cost, an initial measurement at current value is often the basis for the cost or the the deemed cost of an item. For example, many financial instruments are measured at fair value on initial recognition and subsequently measured at amortised cost, and no income or expense is recognised as a result of this change in measurement basis. Certain non-current assets can also be recognised at fair value on transition to IFRS, when an entity applies IFRS 1, with that fair value then being treated as deemed cost for the purposes of subsequent measurement; again, no gain or loss arises from the subsequent measurement at depreciated deemed cost.

Timeliness

Paragraph 6.59 notes that:

> 'The enhancing qualitative characteristics of comparability, verifiability and understandability also have implications for the selection of a measurement basis. However, the enhancing qualitative characteristic of timeliness has no specific implications for measurement.'

We are not convinced, and note that timeliness was one of the factors that the IASB considered when selecting the new impairment model in IFRS 9 (2014):

> IN9 [...] Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, **more timely information** is provided about expected credit losses.
>
> BC5.83 The IASB noted that a model that faithfully represents the economic phenomenon of expected credit losses should provide users of financial statements with relevant information about the amount, timing and uncertainty of an entity's future cash flows. **It should also ensure that the amounts that an entity reports are comparable, timely and understandable.** [...]

BC5.135 On the basis of the feedback received from respondents on the proposals in the 2013 Impairment Exposure Draft about the usefulness of the information and the responsiveness of the impairment model to changes in credit risk, the IASB decided to finalise the proposed approach. In doing so, the IASB considered that this expected credit loss approach will improve financial reporting because:

[...]

(c) a loss allowance at an amount equal to lifetime expected credit losses will be recognised when credit risk has significantly increased since initial recognition, **resulting in the timely recognition of expected credit losses**; and

[...]

[Emphasis added]

Transactions with holders of equity claims

We support the guidance in paragraph 6.69. However, because of the wide range of transactions that occur in practice between holders of equity claims and an entity, which may be on very favourable terms for either the entity or the holder of equity claims, we believe that the guidance should be phrased more broadly to read:

6.69 In a transaction with a holder of an existing or new equity claim, it would normally be appropriate:

(a) to measure any asset received and any liability incurred by the entity at a current value. If the asset or liability will be measured subsequently at historical cost, the current value would form the deemed cost of the asset or liability at that date.

(b) to recognise a contribution from or a distribution to the holders of equity claims, after adjusting for the current value of consideration provided, if any.

Question 10—More than one relevant measurement basis

Do you agree with the approach discussed in paragraphs 6.74-6.77 and BC6.68? Why or why not?

We agree that there can be more than one relevant basis. However, the approach outlined in paragraphs 6.76 and 6.77 highlights the lack of a conceptual basis for which items should be recorded in OCI, and whether and when those items should be recycled to profit or loss.

Question 11—Objective and scope of financial statements and communication

Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?

We agree with the discussion although, as noted below, some further consideration of technology and future reporting formats may be appropriate.

Defining the scope of financial statements is important, as it can then link to whether, for example, information has or has not been audited. Currently, some IFRSs permit certain disclosure requirements to be included in financial statements by cross reference (e.g. IFRS 7.B6 and IAS 34.16A (as amended by the Annual Improvements to IFRSs 2012-2014 Cycle)). We are not convinced that this is a wholly appropriate approach, as it may then be more difficult for users of financial statements to access all of the information that they need.

The discussion in Chapter 7 appears to be based largely on the notion of a paper or a .pdf electronic copy of financial statements. Developments in technology, giving rise to wider formats of electronic reporting, and the current discussions about the future of financial (and corporate) reporting mean that it may be appropriate for this Chapter to consider wider associated implications.

Question 12—Description of the statement of profit or loss

Do you support the proposed description of the statement of profit or loss? Why or why not?

If you think that the Conceptual Framework should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.

While we acknowledge the difficulties involved, we are disappointed that the IASB has not been able to develop a clear definition of what profit or loss represents. We agree with the comments in the alternative view of Stephen Cooper and Patrick Finnegan that it is unsatisfactory for the IASB to identify the statement of profit or loss as the primary source of information about financial performance, and the total or subtotal for profit or loss as providing a highly summarised depiction of the entity's financial performance for the period, without defining what financial performance is or what it should include. Arguably, the proposals put the IASB in a worse position than at present, because there would be a new requirement for a line item to be included for an undefined total or subtotal for profit or loss.

However, we understand the IASB's desire to finalise an updated Conceptual Framework within a relatively short period. Consequently, we support the completion of this part of the Conceptual Framework with the proposed description of the statement of profit or loss, combined with a further review of the use of OCI (see our response to question 13 below), provided that a longer term project is initiated to develop a robust definition of profit or loss, with this being linked to the related use of OCI and requirements for recycling.

Question 13—Reporting items of income or expenses in other comprehensive income

Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not?

If you disagree, what alternative do you suggest and why?

Question 14—Recycling

Do you agree that the Conceptual Framework should include the rebuttable presumption described above? Why or why not?

If you disagree, what do you propose instead and why?

Consistent with our response to question 12, we are disappointed that the IASB has not been able to develop more robust, principles-based guidance to deal with the question of which items should be reported within OCI, and a more robust principle to be applied in deciding whether items initially recorded in OCI should subsequently be recycled to profit or loss and, if so, when.

Again, we understand the IASB's desire to finalise an updated Conceptual Framework within a relatively short period. However, to the extent possible within the project timetable, we suggest that a review of a range of items that are typically included in OCI at present is carried out, with the objective of identifying whether the initial exclusion of those transactions from profit or loss, and the subsequent recycling of amounts to profit or loss, are consistent with the purpose of the statement of profit or loss as set out in paragraph 7.20. This should then lead to appropriate amendments (if any) being made to the proposed guidance.

However, as noted in our response to question 12, we believe that the IASB needs to initiate a longer term project to develop a robust definition of profit or loss, with this being linked to the related use of OCI and requirements for recycling

Question 15—Effects of the proposed changes to the Conceptual Framework

Do you agree with the analysis in paragraphs BCE.1-BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?

The analysis in BCE.1 to BCE.31 does not appear to identify all of the main and minor inconsistencies that would exist between the Conceptual Framework as drafted, and existing Standards. We have set out below a number of additional items that we have identified.

We believe that the IASB should include a section in the Basis for Conclusions to the Conceptual Framework that sets out an analysis of inconsistencies with existing Standards. However, we are concerned that this section might be taken by some to be an exhaustive list. Consequently, we believe that the IASB should clarify explicitly that these are the inconsistencies that have been identified to date, and that the project to develop the new Conceptual Framework has not included a work stream designed to identify all inconsistencies.

Although the IASB is currently consulting on its agenda priorities, and that it will not be possible to address all identified inconsistencies with existing Standards in the short term, we encourage the IASB to develop a strategic medium to long term plan setting out how and when it will deal with those inconsistencies. The need to address certain of those, such as the ones identified in respect of IFRIC 21 and IAS 37, and IAS 32, is significantly more urgent than for some others.

Additional inconsistencies that we have identified are:

- *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28), issued in December 2014, implicitly clarified that financial statements of an investment entity in which all subsidiaries are measured at fair value through profit or loss are not consolidated financial statements (i.e. unconsolidated financial statements). If an investment entity consolidates one or more, but not all, of its subsidiaries, the dichotomy between unconsolidated and consolidated financial statements in Chapter 3 does not apply.
- IAS 20 allows an entity to present government grants related to assets as deferred income in the statement of financial position, even though a government grant generally does not meet the definition of a liability because the entity does not have an obligation to transfer an economic resource to the government. This is in contrast to deferred income arising from transactions where consideration is received in advance of a seller transferring control of goods or services to a customer, where the seller does have an obligation.
- Table 6.1 identifies changes in estimates as information that is provided in the statement(s) of financial performance only for assets and liabilities measured at current value. However, IFRS 9(2014).B5.4.6 (or IAS 39.AG8) require an adjustment to the carrying amount of a financial instrument measured at amortised cost arising from revised payment estimates to be recognised in profit or loss.
- In contrast to the reclassification presumption in paragraph 7.27, reclassification adjustments do not occur, even on derecognition of the underlying item, on:

- Changes in revaluation surplus from items of PPE and intangibles under the revaluation model
- Gains and losses from investments in equity instruments measured at FVOCI in accordance with paragraph 5.7.5 of IFRS 9, and
- The amount of the change in fair value that is attributable to changes in a liability's credit risk from particular liabilities designated as at fair value through profit or loss (see paragraph 5.7.7 of IFRS 9).

Question 16—Business activities

Do you agree with the proposed approach to business activities? Why or why not?

We agree with the proposed approach.

Question 17—Long-term investment

Do you agree with the IASB's conclusions on long-term investment? Why or why not?

We agree with the IASB's conclusions.

Question 18—Other comments

Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).

As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.

We have no further comments.