

3 March 2014

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

Dear Sirs,

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

The Institute of Singapore Chartered Accountants (ISCA), formerly the Institute of Certified Public Accountants of Singapore, appreciates the opportunity to comment on the above Discussion Paper (DP) issued by the International Accounting Standards Board (IASB) in July 2013.

To solicit meaningful feedback for this DP, ISCA sought views from its members through a three-month public consultation and the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms. Observations made and useful inputs received by ISCA through our interactions with the stakeholders are also incorporated where relevant.

GENERAL

We support IASB's efforts to review the Conceptual Framework (the "Framework"). With the increasingly complex and globalised capital markets and developments in economic relationships and corporate reporting, the role of the Framework has become even more critical in developing internationally accepted accounting standards and in improving financial reporting. Henceforth, we envisage the Framework to be sufficiently resilient and robust so as to ensure high quality financial reporting. The Framework should also comprise internally consistent principles and concepts to be used in the development and revision of accounting standards.

The intention of IASB as indicated in the DP is to build on the existing Framework which includes updating, improving and filling in gaps rather than fundamentally reconsidering all aspects of the Framework. The existing Framework was derived from that developed by the US Financial Accounting Standards Board (FASB) in the 1970s and 1980s and its overall architecture remains unchanged. However, given that the corporate reporting landscape has

GENERAL (Cont'd)

changed significantly since the Framework was first envisioned by the FASB, and coupled with recent developments in other international reporting frameworks such as the International Integrated Reporting Framework, there is a real need for IASB to reconsider whether a more fundamental rethink of the Framework is required instead of merely “plugging the holes”. Although the DP stated that IASB has considered the work undertaken by other organisations such as the International Integrated Reporting Council (IIRC), it is not clear in the DP how the relevant concepts have been adopted or considered in the Framework.

The starting point in the review of the Framework is in defining the scope and the informational needs of intended users of financial reporting, before dealing with the concepts and principles. Financial reporting underpins a supply chain that includes a wide range of stakeholders, from investors to preparers, all the way to auditors and regulators. It is therefore important for IASB to deliberate whether the Framework should respond to and meet the informational needs of this wide range of users. If the intention of the Framework is not to meet the informational needs of this range of users, then it begs the question of whether general purpose financial statements would still be relevant. If not, the Framework should identify the primary users (which have to be defined) and include financial reports suitable to meet the informational needs of these primary users. On the other hand, if the intention of the Framework is to meet the informational needs of a wide range of users, IASB should consider expanding the scope of the Framework to include other forms of financial reports (which would include management commentary, interim financial reports etc) given that the general purpose financial statements may not meet the informational needs of all these users.

Today, there is a very apparent demand from investors for information about risks. They also want such information to be consistent and comparable across companies in the context of financial reporting. “Risk” is deeply embedded and ingrained in various facets of financial reporting, amongst others, present value valuation techniques, value in use measurement and qualitative disclosures of risks arising from financial instruments. Risk, however, is not explicitly defined within the IFRS financial reporting framework. In addition, there is no underlying quantitative basis for risk measurement: which is a lacuna in our current financial reporting framework. Henceforth, we are of the view that IASB needs to develop concepts on “Risk” at the Framework level.

We agree with the focus of the DP which is to address pressing areas of concern in practice. However, this should not deter IASB from tackling some of the long-standing controversial issues such as the definition of “financial performance” nor deferring or relegating these issues to be resolved at the individual standards level. The definition of financial performance should form the basis for distinguishing between items that should be recognised in profit or loss and items that should be recognised in OCI, and whether there should be recycling from OCI to profit or loss. Furthermore, some of the new concepts proposed in the DP such as the transfer of wealth approach in the statement of changes in equity, require further development and engagement with relevant stakeholders.

We compliment IASB in prioritising the revision of the Framework and targeting to complete the revision by 2015. IASB should not be overly conscious of the completion timeline such that it compromises the usefulness of the Framework in improving financial reporting. A

more holistic approach should be taken for the development of a resilient and robust Framework.

Once the Framework is revised, there would be a need for IASB to address any conflicts that arise between its existing standards and the revised Framework. Those potentially conflicting standards with the greatest impact on financial reporting and the capital markets should be quickly addressed to avoid market confusion.

Our comments on the more pertinent areas of the Framework are as follows.

ASSETS AND LIABILITIES

Question 2

The definitions of an asset and a liability are discussed in paragraphs 2.6–2.16. The IASB proposes the following definitions:

- (a) an asset is a present economic resource controlled by the entity as a result of past events.
- (b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.
- (c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.

Do you agree with these definitions? Why or why not? If you do not agree, what changes do you suggest, and why?

Question 3

Whether uncertainty should play any role in the definitions of an asset and a liability, and in the recognition criteria for assets and liabilities, is discussed in paragraphs 2.17–2.36. The IASB’s preliminary views are that:

- (a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is ‘expected’. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.
- (b) the Conceptual Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.
- (c) the recognition criteria should not retain the existing reference to probability.

Do you agree? Why or why not? If you do not agree, what do you suggest, and why?

- 1.1 The proposed definitions of an asset and a liability remove the reference to “expected future economic benefits” and focuses on “economic resources”, which is defined as “a right, or other source of value, that is capable of producing economic benefits”.
- 1.2 In principle, we agree with the respective proposed definitions of an asset and a liability which remove the notion of expectation about inflows or outflows of future economic benefits and the removal of the probability threshold. However, we wish to highlight the following areas for IASB’s attention:

- (i) The reference to “past event” is made by both the old and proposed definitions. Under the proposed definitions, “past event” results in the creation of a present economic resource controlled by the entity or a present obligation of the entity to transfer an economic resource. As rightly pointed out by IASB, difficulties are encountered in practice because it is unclear whether those past events are sufficient to create a present obligation to transfer an economic resource if such a transfer remains conditional on future events that have not occurred, or on future actions that the entity has not taken, by the reporting date. What does past event entail and is past event alone sufficient to create a present obligation as long as the entity no longer has the complete discretion to avoid a future transfer?

We believe that the Conceptual Framework should address the fundamental concept of “past events” within the context of the proposed definitions in order for the new definition to be more useful in addressing issues in standard-setting and in providing a more robust and conceptually sound definition of an asset or a liability.

- (ii) The additional guidance to support the definition of liability does not explain the factors that should be considered in determining whether a conditional obligation meets the definition of a liability. We agree with IASB’s view that economic compulsion is not sufficient to create a constructive obligation. However, the additional guidance in the DP to support the definition of “constructive obligation” does not provide clear concepts of when economic compulsion is sufficient to create a constructive obligation.
- (iii) IASB is of the view that the Conceptual Framework should state that an asset or a liability should not be recognised if it results in information that is irrelevant, or not sufficiently relevant to justify the cost of preparing it; or if no measure of the asset (or the liability) would result in a faithful representation of the asset (or the liability) and of changes in the asset (or liability), even if all the necessary descriptions and explanations are disclosed. The DP provides examples of cases where the recognition of resources and obligations would not provide relevant information to users, or information that is not sufficiently relevant to justify the cost. In addition, the DP also provides indicators of when the recognition might not provide relevant information. Notwithstanding the examples of cases and indicators provided, these are not concepts and we are of the view that clear concepts are required to be developed within the Conceptual Framework.

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.

- 2.1 Based on the seven scenarios given in the DP, it can be perceived that View 1 to View 3 is a continuum which impacts the number of liabilities recognised. We agree with IASB on the rejection of View 1 as this view would result in the recognition of too few liabilities.
- 2.2 We have reservations over both View 2 and View 3, notwithstanding that the outcomes of both approaches are intuitively fair. However, the approaches are not sufficiently developed in terms of the identification of the “obligating event” when there is more than one past event. Until and unless the gaps as highlighted in paragraph 1.2 are addressed, it is premature for us to determine which of the two views to support.

Question 7

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

Executory contracts and other forward contracts

- 3.1 We are of the view that the discussion in the DP on the recognition of assets and liabilities under executory contracts and other forward contracts is not sufficiently robust and the rationale supporting the discussion is also not clear. In addition, the discussion appears to be focusing on current practice. Hence, IASB should provide

further clarification and guidance on such contracts, especially on the recognition of rights and obligations arising under these contracts.

- 3.2 On a separate note, deferred taxes is one other area whereby the DP did not address as these items do not meet the proposed definitions of an asset or a liability.

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?

- 4.1 We agree with the definition of equity and the proposed use of the definition of a liability to distinguish liabilities from equity instruments, subject to our comments above on the definition of a liability.
- 4.2 We also support the ‘strict obligation’ approach as it is consistent with existing definition of a liability and treatment of non-controlling interest. However, we do not see the need to describe the transfer of wealth between equity classes in the statement of changes in equity as this might introduce complexity. Hence, we propose IASB to perform field tests on this so as to identify practical challenges and also conduct user outreach to assess the usefulness of such information.

PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (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, ie recycled, is discussed in paragraphs 8.23–8.26.

Do you agree? Why or why not? If you agree, do you think that all items of income and expense presented in OCI should be recycled into profit or loss? Why or why not?

If you do not agree, how would you address cash flow hedge accounting?

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.

- 5.1 We agree with IASB's preliminary view that the Framework should require a total or subtotal for profit or loss. The DP acknowledged that many investors, creditors, preparers and others view profit or loss as a useful performance measure and that "profit or loss" as a subtotal or a phrase is deeply ingrained in the economy, business and investors' minds.
- 5.2 Notwithstanding that, the rhetorical question that standards setters and accounting bodies have not answered is the definition of "performance". We understand and appreciate the difficulties faced in deriving a sufficiently broad definition for "performance" that can be used across the board. However, without defining "performance", the dividing line between profit or loss and OCI cannot be determined as it is uncertain whether a particular item should be included in profit or loss only, or in OCI only, or in OCI and eventually being recycled to profit or loss. This is closely related to the recycling issue in which if OCI is deemed to be a measure of "performance", then recycling from OCI to profit or loss should not be permitted as it would result in the same performance item being recognised twice. On the other hand, if OCI is not deemed to be a measure of "performance", recycling to profit or loss

would be permitted only if the OCI item subsequently meets the definition of “performance”.

- 5.3 Hence, we do not foresee that the issue on recycling can be resolved without tackling the fundamental issue of “performance” definition.

BUSINESS MODEL

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?

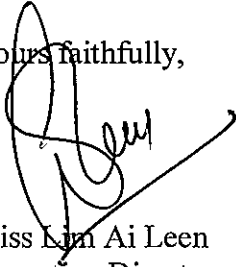
Should the IASB define ‘business model’? Why or why not?

If you think that ‘business model’ should be defined, how would you define it?

- 6.1 We agree 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. The business model concept could provide a pragmatic approach for addressing issues relating to recognition and measurement elements at a particular standard level. We noted that “business model” has been explicitly relied upon in the determination of appropriate accounting in IFRS 10 “Consolidated Financial Statements for Investment Entities” and IFRS 9 “Financial Instruments”.
- 6.2 It is however not clear from the DP what the business model concept means and how or when it could be applied when developing or revising particular standards. We believe that this is an area that warrants further discussion and consideration.
- 6.3 In addition to the use of business model concept in developing or revising particular standards, IASB may want to consider requiring the disclosure of the entity’s business model in the notes of the financial statements to enhance the understanding of the company’s financial information.

Should you require any further clarification, please feel free to contact Ms Lim Ju May, Deputy Director, Technical Standards Development and Advisory, or Ms Jezz Chew, Manager, Technical Standards Development and Advisory, at ISCA via email at jumay.lim@isca.org.sg or jezz.chew@isca.org.sg respectively.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Lim Ai Leen', written over a large, stylized circular scribble.

Miss Lim Ai Leen
Executive Director
Technical Knowledge Centre and Quality Assurance