ACAG AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

2 October 2015

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
Melbourne Victoria 8007

Dear Ms Peach,

ACAG submission on Exposure Draft ED 264 – Conceptual Framework for Financial Reporting

The Australasian Council of Auditors-General (ACAG) would like to express our support for the revised Conceptual Framework for Financial Reporting as contained in the Exposure Draft ED 264 *Conceptual Framework for Financial Reporting*.

The views expressed in this submission represent those of all Australian members of ACAG.

The attachment to this letter addresses the specific matters for comment outlined in the Exposure Draft and articulates our views in more detail. Also attached is the ACAG response to the International Accounting Standards Board (IASB) Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*.

The opportunity to comment is appreciated and I trust you will find our feedback useful.

Yours sincerely

A T Whitfield PSM
Chairman
ACAG Financial Reporting and Auditing Committee

ATTACHMENT

AASB Specific Matters for comment:

1. whether, and to what extent, the IPSASB *Conceptual Framework* should be incorporated into the AASB *Conceptual Framework for Financial Reporting*;

ACAG believes that in an ideal world, the conceptual framework for the private sector and the public and not-for-profit (NFP) sectors should be one and the same. The conceptual framework should be at a sufficiently high level to guide all accounting decisions. The International Public Sector Accounting Standards Board (IPSASB) and IASB should continue to work towards convergence of their conceptual frameworks. Sector specific requirements could then be dealt with at the Standards-level. For this reason, ACAG recommends that where possible the content of the IASB's proposed Conceptual Framework (the Framework) be kept sufficiently broad to be relevant to a wide range of users.

ACAG notes the following issues that the Framework has not covered, but which are included in the work the IPSASB has performed to date:

1. The majority of public sector entities are NFP with a predominance of non-exchange transactions. The AASB should consider adding to the Framework definitions of elements, measures and recognition criteria for non-exchange transactions.

2. Measurement becomes more problematic when there are few market reference points. The absence of an active market for assets and liabilities makes it harder (and more costly) to estimate the value of these assets, which are generally held to benefit society rather than generate cash flows. The IASB proposals include a cost-benefit test for recognition. Exercising this test liberally may see some difficult to measure public sector assets, which would previously have been recognised, derecognised. Information that is not complete because of the cost of estimation, may impact the faithful representation of financial statements in the public and NFP sectors. Fair value estimates, many of which are both difficult and costly to obtain, are required to align financial reporting of governments with Government Finance Statistics reporting.

2. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(a) not-for-profit entities; and

(b) public sector entities, including GAAP/GFS implications;

ACAG has some concerns with the Framework and its applicability to the public sector in Australia, which are detailed below. These issues, if not dealt with by the IASB, may need to be dealt with by the AASB.

- Description and boundary of a reporting entity (Question 2) - In ACAG's view the Framework provides insufficient guidance when determining when a 'portion of an entity' is a reporting entity. This notion can be particularly problematic in the public sector as governments' increasingly aggregate governance at the departmental and cluster level, but funding, budget management and assessment of performance at the program level. As noted in ACAG's response to ED/2010/2, ACAG believes the Framework could be enhanced by retaining and augmenting the guidance in SAC 1 *'Definition of the Reporting Entity'* that details the characteristics of a reporting entity. This guidance helps those in the NFP and public sectors determine the boundaries of reporting entities and therefore the level at which financial statements should be prepared.

  ACAG believes references to 'investors, lenders and other creditors' should be changed to the broader term of 'users' to acknowledge those who may not necessarily have a direct financial interest in the reporting entity such as the service recipients, resource providers and their representatives. In Australia, where a single set of standards is used by the NFP and public sectors, relevant stakeholders include users such as taxpayers, ratepayers, and parliamentarians.

- Definitions of elements (Question 3) – The term 'economic benefits' may be interpreted to refer only to financial benefits and cash flows with no consideration of the service potential embodied within an asset. This concept is particularly important within both the NFP and public sector space. The examples provided in paragraph 4.14 of the types of economic benefits produced (i.e., receiving contractual cash flows, receiving another economic resource or exchanging economic resources on favourable terms, using the economic resource to produce cash inflows, etc.) would also lead readers to this same conclusion. ACAG recommends the definition recognise that economic benefits also encompass the service potential embodied within an asset.

- Reporting items of income or expense in other comprehensive income (Question 12 and 13) – In ACAG's response to the IASB, ACAG has supported the IASB's decision to include a presumption that income and expenses will be included in the statement of profit or loss unless there are compelling reasons (which are expected to be limited) for income or expenses to be excluded from profit or loss and included in other comprehensive income (OCI). ACAG believes relegation of items of income and expense to OCI should be minimised, but acknowledges the role of OCI in separating the reporting of valuation adjustments from performance. For example, remeasurements of defined benefit obligations are sensitive to small changes in the government bond rate. However, if reported within profit or loss those remeasurements can be so large it would require some analysis to determine the performance of government against criteria within its control.

- The AASB has some standards developed and proposed for the NFP and public sector that may not be consistent within the proposed Framework. For instance the proposals in ED 261 '*Service Concession Arrangements: Grantor*' may be inconsistent with the proposed changes to the Framework in relation to the application of the revised definition and recognition criteria for liabilities.

3. whether, overall, the proposals would result in financial statements that would be useful to users;

Subject to consideration of the matters raised in this response, ACAG believes that overall, the proposals would result in financial statements that would be useful to users.

4. whether the proposals are in the best interests of the Australian economy; and

ACAG has no comment to make on this question.

5. unless already otherwise provided in your response, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non- financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Subject to consideration of the matters raised in this response, ACAG does not expect implementation of the proposals would involve significant costs.

ACAG AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

2 October 2015

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

Dear Mr Hoogervorst,

ACAG submission on Exposure Draft ED/2015/3 – Conceptual Framework for Financial Reporting

The Australasian Council of Auditors-General (ACAG) would like to express our support for the revised Conceptual Framework for Financial Reporting as contained in the Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*.

The views expressed in this submission represent those of all Australian members of ACAG.

The attachment to this letter addresses the specific matters for comment outlined in the Exposure Draft and articulates our views in more detail.

The opportunity to comment is appreciated and I trust you will find our feedback useful.

Yours sincerely

A. T. Whitfield

A T Whitfield PSM
Chairman
ACAG Financial Reporting and Auditing Committee

ATTACHMENT

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) ACAG supports the proposal to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources.

In ACAG's view, an assessment of both future cash flow prospects and management's stewardship are important for making resource allocation decisions. Stewardship is an essential concept underlying general purpose financial reports. It acknowledges management's fiduciary responsibility to those dependent upon their decisions for their effective, efficient, prudent, diligent, honest and profitable management of the reporting entity's resources. The fiduciary duty of directors is codified within the *Corporations Act 2001*, which requires directors to:

- apply care and diligence
- act in good faith
- refrain from the improper use of their positions
- refrain from the improper use of information.

Therefore, ACAG does not believe the concept of 'stewardship' is a new concept or adds any burden to the Conceptual Framework (the Framework). ACAG believes limiting the objective of financial reporting to the assessment of future cash flows of an entity would unnecessarily constrain the focus of standard setters.

However, ACAG is of the view that how stewardship contributes to both the prospects for future cash flows and how efficiently and effectively management has used the entity's resources could be further explored and clarified by the inclusion of guidance to supplement Chapter 1 of the proposed Framework.

(b) ACAG supports the proposal to reintroduce the notion of prudence, defined as the exercise of caution when making judgements under conditions of uncertainty, as a concept supporting neutrality. ACAG agrees that when more uncertainty is prevalent, then more prudence is required to be exercised. ACAG does not support a broader application as it would build a bias into the Framework.

(c) ACAG agrees the Framework should include an explicit reference to substance over form, recognising that in order to achieve faithful representation, the substance of an economic phenomenon, rather than just its legal form must be considered.

In ACAG's view, substance over form is a crucial consideration when applying Standards and is a common theme embedded in a number of Standards and Interpretations. For example: IAS 17 *'Leases'*, IAS 18 *'Revenue'*, IAS 32 *'Financial Instruments: Presentation'*, IFRIC 4 *'Determining whether an Arrangement Contains a Lease'* and SIC 27 *'Evaluating the Substance of Transactions involving the Legal Form of a Lease'*. In a world of increasingly complex transactions, the ability to look through the legal form of a transaction to its economic substance avoids the perverse and inconsistent outcomes that might occur if only the legal form of a transaction is considered.

(d) ACAG agrees measurement uncertainty is one factor that can make financial information less relevant and that there is a trade-off between this and other factors. Dealing with measurement uncertainty is common in the public sector, where fair value measurements are more likely to lack reference points in markets, involve a high degree of measurement uncertainty and use significant unobservable inputs (level 3 of the fair value hierarchy). For example, if the measurement uncertainty in the fair value of some heritage and cultural assets is too high, these assets will not be recognised in the financial statements but may still be relevant for disclosure at the Standards-level.

(e) ACAG agrees that relevance and faithful representation still represent the two fundamental qualitative characteristics of useful information.

ACAG agrees the term 'reliability' should not be reinstated because the Framework sufficiently and appropriately covers measurement uncertainty in paragraphs 2.12-2.13 and 2.20 (see 1(d) above).

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?

ACAG agrees with the proposed description, i.e., 'A reporting entity is an entity that chooses, or is required, to prepare general purpose financial statements'. The description addresses ACAG's previous concerns with the definition proposed in ED/2010/2 where ACAG considered the terms 'circumscribed area of economic activities' and 'potential to be useful' too vague, and could lead to different interpretations of what constitutes a reporting entity.

ACAG agrees a reporting entity is not necessarily a legal entity and can comprise a portion of an entity. In Australia 'departments' are administrative units of the Crown and are not separate legal entities, but are treated as reporting entities. However, ACAG believes the Framework provides insufficient guidance when determining when a 'portion of an entity' is a reporting entity. ACAG believes the Framework could be enhanced if guidance regarding the characteristics of a reporting entity, such as that provided in paragraphs 20 to 22 (i.e. separation of management from economic interest; economic or political importance/influence; financial characteristics) of Australia's Statement of Accounting Concepts SAC 1 '*Definition of the Reporting Entity*' were incorporated into the Framework. In Australia, this guidance helps those in the not-for-profit (NFP) and public sectors determine the boundaries of reporting entities and therefore the level at which financial statements should be prepared.

Also, ACAG would prefer references to 'investors, lenders and other creditors' are changed to 'users' for the purposes of broader application by users who may not necessarily have a direct financial interest in the reporting entity and are not dependent on future net cash inflows.

ACAG agrees with the IASB's view that consolidated statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements.

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?

(a) ACAG agrees with the proposed definition of an asset (i.e., a present economic resource controlled by the entity as a result of past events).

ACAG agrees with the IASB's decision to omit 'or other source of value' from the proposed definition of an economic resource, as this is too ambiguous. Rather, the IASB acknowledges that the 'notion of a right encompasses not merely legal rights but also access that an entity controls in other ways' (BC4.36) and provides examples of rights (such as rights to the economic benefits that may be produced by items such as know-how not in the public domain or by customer or supplier relationships) that constitute economic resources at paragraph 4.8.

However, ACAG recommends the proposed definition of an economic resource (i.e., a right that has the potential to produce economic benefits) is expanded. The term 'economic benefits' may be interpreted to refer only to financial benefits and cash flows with no consideration of the service potential embodied within an asset. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows. The examples provided in paragraph 4.14 of the types of economic benefits produced (i.e., receiving contractual cash flows, receiving another economic resource or exchanging economic resources on favourable terms, using the economic resource to produce cash inflows, etc.) would also lead readers to this same conclusion. ACAG recommends the definition be amended to recognise that economic benefits also encompass the service potential embodied within an asset. Alternatively the discussion at paragraph 4.14 could acknowledge service potential as a type of economic benefit produced by an economic resource.

ACAG also supports the IASB's decision to replace 'expected' with 'potential' as this makes it clearer there is no minimum probability threshold for an asset (or liability) to exist and places greater emphasis on the existing rights (or obligations in the case of liabilities) and not on the probability of flows occurring. In ACAG's view, an asset/liability need only have the potential to generate inflows/outflows in order to meet the definition of an asset/liability. Any concerns around uncertainty should be addressed via the recognition criteria.

(b) ACAG agrees with the proposed definition of a liability (i.e. a present obligation of the entity to transfer an economic resource as a result of past events). ACAG is supportive of removing 'expected' from the definition for the reasons stated previously. While ACAG supports the proposed definition of a liability, ACAG has concerns regarding the proposed guidance supporting the 'present obligation' concept. ACAG's commentary on the proposed description of a 'present obligation' and these concerns are detailed in ACAG's response to Q4.

(c) ACAG agrees with IASB's decision to retain the existing definition of equity as the residual interest in the assets of the entity after deducting all liabilities.

(d) & (e) ACAG agrees with the proposal to continue to define income and expense in terms of increases or decreases in assets and liabilities.

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?

ACAG supports the proposed description of a present obligation. As emphasised in ACAG's response to Discussion Paper DP/2013/1, ACAG does not believe liabilities should be limited to those that are legally binding, as this risks excluding many obligations that, in economic substance, would be binding on the entity. This is particularly the case in the NFP public sector, where some liabilities are recognised due to the existence of 'constructive obligations', which are not limited to legally binding present obligations.

ACAG supported and continues to support the view that even if an entity does not have a legal obligation, if it does not have the practical ability to avoid the transfer of economic resources through its future actions, it still has a present obligation. In ACAG's view recognition of liabilities where there is no practical ability to avoid the obligation provides the most faithful representation of an entity's financial position. The proposals are consistent with those expressed within Chapters 1 and 2 that faithful representation represents the substance of a transaction and not just its legal form.

However, in ACAG's view, applying the concept of 'no practical ability to avoid' will require significant judgement, particularly in light of the IASB's decision to implicitly introduce the notion of economic compulsion. Whilst ACAG agrees the 'past event' criterion would ensure economic compulsion alone would not result in recognition of a liability (BC4.75), ACAG recommends the IASB consider providing additional guidance on applying the 'no practical ability to avoid' concept within the Framework.

ACAG would like to point out an inconsistency between IAS 17 *Leases* and the proposed Framework. The proposed Framework requires a liability to be recognised when there is no practical ability to avoid a transfer of economic resources and the obligation has arisen from a past event. In contrast, IAS 17 *Leases* does not require an operating lease to be recognised as a liability, as not all the risks and rewards of ownership have passed to the lessee. It could be argued that an operating lease has arisen from a past event and the lessee has no practical ability to avoid making rental payments to the lessor. Accordingly, when considering the proposed Framework, a different outcome arises.

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.

Definition of elements

The IASB has refrained from defining elements for the statement of cash flows and statement of changes in equity. As emphasised in ACAG's response to DP/2013/1, ACAG believes the IASB should reconsider this position. In ACAG's view, it would be helpful to identify and define the elements for these statements. Firstly, the more comprehensive the Framework, the more useful it will be to preparers, auditors and users. Secondly, defining these elements would indicate more clearly the relationships between these elements and profit or loss or other comprehensive income and provide a conceptual basis for the treatment of such items within individual Standards.

Executory Contracts

In ACAG's response to DP/2013/1, ACAG raised concerns regarding the IASB's proposal that executory contracts give rise to a net asset or net liability. In ACAG's view, DP/2013/1 did not clarify why netting would be considered conceptually appropriate. ACAG suggested the Framework address why assets and liabilities arising from executory contracts should be treated any differently from other assets or liabilities. In respect of the proposed Framework, ACAG agrees with the IASB's reasoning behind recognising a single net asset or net liability under an executory contract, which is now articulated in the Basis for Conclusions. However, ACAG recommends this reasoning form part of the body of the Framework, to expand upon its statement in paragraph 4.41 that the right and obligation 'to exchange economic resources, are interdependent and cannot be separated'.

Reporting the substance of contractual rights and contractual obligations

In ACAG's view, the principle of substance over form is critical to faithful representation. ACAG supports the IASB's decision to include guidance for reporting the substance of contractual rights and obligations in the Framework and agrees this would help to ensure consistency in application.

ACAG supports the proposal outlined in paragraph 4.56, that a group or series of contracts may need to be treated as a whole to faithfully represent the commercial substance of the group or series of contracts.

Unit of Account

In ACAG's response to DP/2013/1, ACAG supported the IASB's decision that the selection of a unit of account is a Standards-level decision. ACAG continues to support the IASB's view that the issue is too specific to be decided at the Framework level and welcomes the IASB's proposal to provide in the Framework examples of possible units of account and the factors that could determine which unit of account to use.

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?

ACAG supports the proposed removal of the explicit recognition criteria of probability and reliable measurement from the Framework. ACAG agrees with the reasons stated in the Basis for Conclusions (i.e., inconsistent application of probability thresholds; possible confusion from using the criterion of 'reliable measurement' as reliability is no longer identified as a qualitative characteristic; and the fact that concern around the proposed removal of reliability was largely in relation to measurement uncertainty). ACAG believes the IASB has adequately addressed the issue of measurement uncertainty as part of the discussion on relevance by adding further guidance to what already existed in the Conceptual Framework 2010 at paragraphs 2.12-2.13 and 5.20-5.21.

ACAG supports the proposed recognition criteria of relevance and faithful representation. ACAG believes this approach is conceptually superior in that it will cover elements that vary significantly in nature. For example, clear and easily identifiable assets like buildings compared to the other end of the scale, for example assets like know-how will, under the proposed approach, still be recognised if they meet the recognition criteria.

However, ACAG is concerned with the third recognition criterion of cost vs benefit in paragraph 5.9(c). ACAG believes this criterion could be used as a mechanism by preparers to avoid recognition, which would pose challenges for auditors. The guidance on materiality would seem sufficient to cover instances where omission through non-recognition may be appropriate. ACAG is of the view that the cost constraint is a general constraint on financial reporting and should not be included as a specific recognition criterion. If the IASB decides to proceed with the cost vs benefit recognition criterion, ACAG recommends the IASB emphasise in the Framework that this is not an opportunity for preparers to avoid recognition and provides further guidance relating to the cost/benefit analysis, including a methodology for determining the benefits and the costs of providing the information in the financial report.

In line with ACAG's response to DP/2013/1, ACAG agrees with the IASB's decision to provide further supporting guidance in this chapter.

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?

ACAG disagrees with the proposed discussion of derecognition. In line with ACAG's response to DP/2013/1, ACAG believes derecognition of an asset or liability should occur when it no longer meets the recognition criteria. In ACAG's view, if the recognition criteria in the Framework were sufficiently robust, then a section on derecognition would be unnecessary. If there is a specific Standard that requires derecognition requirements to be set out, then these requirements should be at the Standards-level (e.g., financial instruments).

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) In line with ACAG's response to DP/2013/1, ACAG believes that from a conceptual point of view, the comparability and understandability of financial statements would be greatly enhanced if the IASB were to develop a single measurement basis for financial statements. However, ACAG acknowledges the practical challenges faced by the IASB in this regard. As the measurement bases proposed have been kept to a minimum, ACAG supports the IASB's current proposals. ACAG believes in the longer-term the IASB should reconsider this position and aspire to have a Framework that promotes the use of a single measurement basis in order to minimise IFRS interpretation issues. As it stands, Chapter 6 – Measurement appears to be explaining a system of accounting, rather than a set of conceptual concepts.

ACAG supports the measurement bases identified and their descriptions, but does not support the discussion in paragraph 6.18 on current cost under the heading of 'Historical Cost'. ACAG questions the placement of this discussion on current cost within the historical cost section as opposed to the current value section of the Framework. Particularly, as the cost approach is considered a fair value measurement technique under AASB 13 'Fair Value Measurement'. ACAG recommends the IASB reconsiders the placement of this discussion to avoid confusion.

(b) As previously stated in our response to DP/2013/1, ACAG agrees the measurement bases in the Framework should have the objective of contributing to the faithful representation of relevant information. For this to occur, measurement bases must be kept to a minimum to avoid different measurements within totals, causing meaningless results.

ACAG believes that overall the draft Framework properly describes the information provided by each of the measurement bases, and their advantages and disadvantages, subject to consideration of ACAG's concerns raised in response to Question 8(a) above.

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?

Notwithstanding ACAG's concerns regarding the use of multiple measurement bases, ACAG believes the factors set out for consideration in selecting a measurement basis are appropriate. ACAG agrees there is a linkage between the qualitative characteristics, the enhancing qualitative characteristics and the basis that is chosen to measure things that are reported in financial statements. ACAG also agrees that cost constraints are an important consideration in determining a measurement basis.

ACAG agrees with the concept that initial and subsequent measurements are linked and must both be considered at the initial stage. In line with ACAG's response to Question 1, ACAG believes measurement uncertainty is an important consideration affecting the relevance of the information provided.

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?

AGAG does not agree with the approach of more than one relevant measurement basis for an asset/liability and the related income/expense recognised in the financial statements as this hinders understandability. In ACAG's view, the proposed Framework should contemplate a single measurement basis for the related items recognised, with alternate measurement outcomes disclosed in the notes if this provides relevant information. In the limited instances where the IASB should decide that a dual measurement approach is necessary for the related items recognised in the financial statements, ACAG believes this approach should be included only at the Standards-level.

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?

ACAG considers the discussion on the objective and scope of financial statements is appropriate as it satisfies the needs of different stakeholders and provides relevant information to interested parties for decision-making. As noted in ACAG's response to Question 1, ACAG supports the IASB's decision to increase the prominence of stewardship within the Framework, acknowledging the objective of financial statements is to not only provide users with information to assess the prospects for future net cash inflows but to also help users assess management's stewardship of the entity's resources.

ACAG agrees with the IASB's view that presentation and disclosure are communication tools and, in line with ACAG's response to DP/2013/1, supports the IASB's decision to include the communication principles outlined in the DP in the Framework and is pleased to see the principles are clearly linked to the qualitative characteristics of useful financial information. In particular, ACAG supports the proposed principle that 'entity-specific information is more useful than 'boilerplate' language and is more useful than information that is readily available outside the financial statements'. In the Australian public sector, many financial statement preparers are required to follow fixed format financial statements and note disclosures. An unintended consequence of this requirement is that many public sector entities take up the disclosures with minimal consideration of materiality and relevance of the disclosures. To this end, ACAG also supports the IASB's decision to include in the Framework the need to also set disclosure objectives at the Standards-level as this will further discourage boilerplate disclosures and a checklist mentality when determining required disclosures.

ACAG acknowledges the IASB's intention to keep the communication principles in the Framework at a high level and recommends the IASB ensures it develops and expands on those principles at the Standards-level to help financial statement preparers in presenting and disclosing information.

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.

In ACAG's view, the purpose and use of the statement of profit or loss lacks a clear definition. ACAG disagreed with the guidance, now provided in paragraphs 7.20 and 7.21 of the Framework in ACAG's response to DP/2013/1. It was not clear what the 'primary source of information' is or should be nor did the IASB provide guidance on the definitions of 'return', 'financial performance', or 'profit or loss'. In the absence of clearly defined core terms, those paragraphs failed to provide clear direction to users.

ACAG acknowledges the challenges faced by the IASB in defining when an item of income or expense should be included in the statement of profit or loss or other comprehensive income (OCI). In line with ACAG's response to DP/2013/1, ACAG agrees the Framework should require a total or sub-total for profit or loss, provided that the term is defined or, at least distinguished from other comprehensive income. ACAG continues to believe the relegation of items of income and expense to OCI should be minimised. ACAG supports the IASB's decision to include within the Framework a presumption that income and expenses will be included in the statement of profit or loss unless there are compelling reasons (which are expected to be limited) for income or expenses to be excluded from profit or loss and included in OCI. ACAG recommends the IASB continue to work towards defining and limiting what those compelling reasons might be. In this respect, ACAG considers that the Alternative View of Stephen Cooper and Patrick Finnegan (set out in AV2 – AV7) represents a good starting point.

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?

ACAG generally agrees with the proposals on the use of OCI and supports the statement that profit or loss should be as inclusive as possible. This approach aligns with ACAG's views expressed in response to DP/2013/1 where ACAG emphasised that relegation of items of income and expense to OCI should be minimised. However, ACAG considers that the Alternative View of Mr Cooper and Mr Finnegan (set out in AV2 – AV7) has merit and may be used to conceptually distinguish profit or loss and OCI. Refer to ACAG's comments at Question 12 above. Such an approach would restrict the use of OCI further than the ED proposals, but as the presumption is rebuttable would allow exceptions (such as gains/losses on remeasurement of defined benefit obligations) to be handled at the Standards-level.

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?

ACAG agrees with the IASB's approach to support recycling as it protects the integrity of profit or loss by ensuring that cumulative amounts included over time in profit or loss are as complete as possible. However, ACAG believes that the principle of 'net zero accumulated amount in OCI' outlined in the Alternative View of Mr Cooper and Mr Finnegan in AV5 has merit and would obviate the need to explicitly consider recycling of OCI items. Should the IASB not adopt this Alternative View, ACAG recommends that additional guidance be provided on when a reclassification would 'enhance the relevance of the information included in the statement of profit or loss for that period' or at least consider this at the Standards-level. This guidance should discuss the characteristics of income and expenses that should be presented in OCI and the rationale for recycling of gains and losses in OCI to profit or loss.

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?

ACAG agrees with the analysis in paragraphs BCE.1-BCE.31 and acknowledges the intention of the proposed changes to the Framework is to provide a coherent basis for developing future Standards, not to eliminate existing inconsistencies.

ACAG supports the IASB's decision to start using the revised Framework immediately once it is published. In the interests of comparability, ACAG also supports the IASB's decision to require entities (subject to impracticability provisions of IAS 8 *'Accounting Policies, Changes in Accounting Estimates and Errors'*) to account for any changes in accounting policy arising from the application of the revised Framework retrospectively.

In addition to inconsistencies with existing Standards, ACAG recommends the IASB considers specifying the differences between the new and superseded version of the Framework.

Question 16—Business activities
Do you agree with the proposed approach to business activities? Why or why not?

In line with ACAG's comments to DP/2013/1, ACAG agrees that consideration of the nature of an entity's business activities when the IASB develops or revises particular Standards is likely to improve the relevance of financial information. ACAG agrees with the proposed approach to not include a general discussion of the role played in financial reporting by how an entity conducts its business activities but to rather discuss how such activities impact the unit of account, measurement basis selected, presentation and disclosure.

Question 17—Long-term investment

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

ACAG agrees with the IASB's conclusions on long-term investment. The Framework sets out the concepts that underlie the preparation and presentation of financial statements for all primary users. There is no reason to believe the information needs of potential investors (as opposed to existing investors) or long-term investors (as opposed to short-term investors) are not addressed by the Framework. ACAG agrees that the Framework contains sufficient and appropriate discussion of primary users and their information needs, and on the objective of general purpose financial reporting to be able to address, at the Standards-level, the needs of long-term investors.

Different users can obtain information from the financial statements to make economic decisions. As a result, it is a matter of how to regulate and improve the presentation and disclosure of financial statements at the Standards-level to enable effective information communication instead of changing the Framework to emphasise the information needs of specific groups of users.

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.

ACAG has no other comments on other aspects of the proposed Framework.