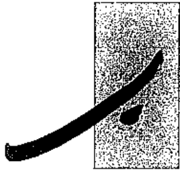


FEDERATION
BANCAIRE
FRANCAISE

Banking supervision
And Accounting issues Unit

The Director

Paris, January 14th 2014

FBF response to the IASB Discussion Paper: Review of the Conceptual Framework for Financial Reporting

Dear Mr Hoogervorst,

The French Banking Federation is pleased to have the opportunity to comment on the Discussion Paper: Conceptual Framework. FBF welcomes this opportunity to discuss the accounting basic principles, which must be the primary conceptual source for developments of new standards, and the main tools to achieve coherence between specific standards. This is why we are very reluctant to any depart from this foundation when arises a conflict between the CF and the developments envisaged for a new standard. It would be so unusual that we prefer opening a discussion on the CF itself than to depart from the bedrock of the accounting principles.

In the annex, you will find our detailed answer to the various issues raised in the discussion paper.

We want to highlight in this cover letter that our members are disappointed by the very high level of some proposals which do not seem to fully address the main issues the banking industry currently face.

Without being exhaustive, we can quote:

- The articulation of the notions of control and "risks and rewards" when addressing the problems related to principal versus agent analysis,
- The presentation of derivatives and securities financing transactions on a gross or a net basis,
- The extension of leases' capitalization and the consequence of leases for the lessor' risks and rewards,
- The distinction between equity and debt for bail in able instruments when their conversion is remote.

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

These thematics are concrete issues we have to answer in various circumstances and we think that the conceptual framework must give the fundamental orientations for specific principles to be developed in dedicated standards.

We also think that the paragraphs dedicated to measurement must be improved. For example, the criterion of the structure of cash flows is not quoted as a key measurement attribute, when in IFRS 9 it is a critical factor for the SPPI test.

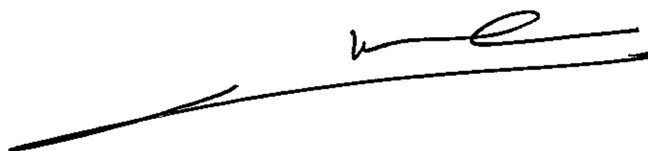
Globally, our members estimate that the question of performance has to be developed in the future ED, closely linked with the issue of cash flows realization, which is the main criteria to distinguish various business models. The circumstances where market prices do not reflect the fair value of the instruments, when the markets are inefficient must also be addressed when discussing the appropriate measurement methodology. The requirement of sufficient certainty about future cash flows is key in this area and conditions the stewardship and performance evaluation process.

We suggest that the future exposure draft on the conceptual framework address more in depth these issues that are fundamental in the financial reporting of the banking sector.

Our answers to the discussion paper are detailed in the Appendix to this letter.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,



Jean-Paul Caudal

APPENDIX

Section 1 - Introduction

Question 1

Paragraphs 1.25–1.33 set out the proposed purpose and status of the Conceptual Framework. The IASB's preliminary views are that:

- *(a) the primary purpose of the revised Conceptual Framework is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs; and*
- *(b) in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the Conceptual Framework. If this happens the IASB would describe the departure from the Conceptual Framework, and the reasons for that departure, in the Basis for Conclusions on that Standard.*

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

We agree with the objectives set for the conceptual framework (§ a). It must represent a set of high level principles which will govern all the standards, in order to have a coherent treatment of the same issues in various circumstances and contexts.

This is why we disagree with the proposal made in § b. If during a project of a new standard, it appears that the best solution to solve the outcome envisaged conflicts with the conceptual framework, it would be so unusual and extraordinary that it will be worth to expose a proposal for amending the conceptual framework. Otherwise, under the scheme described in b, the Board can transform easily the conceptual framework in an empty box, and take opportunistic decisions for a particular standard, which will jeopardize the coherence of the whole IFRS.

Section 2 - Elements of financial statements

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?

The proposed wording is so general that anything can be argued fulfilling these definitions. For example, on the asset side, internal goodwill, any project in R &D can be viewed as satisfying these recognition's criteria. The objective of the Board in amending the existing definitions remains unclear. Does this proposal aim at solving some recent problem encountered in standard setting? For example, we do not see how this new wording is of some help to justify the extension of the leases recorded as assets as envisaged in the leases 'project or if it is easier to decide whether derivatives must be accounted for on a gross or a net basis in balance sheets. If the definition of assets and liabilities has to be modified, it must be for solving these difficulties, not for transferring recognition issues into measurement issues without any tangible benefit.

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?*

See the answer above

Assets and liabilities should be recognized when doing so provides useful and understandable information. Criteria that focus on whether the results are cost effective and faithfully representative may achieve this in a more straightforward manner than defining a probability threshold. The application of judgment is unavoidable and already widely used in practice. The application of a probability threshold would also create other issues such as determining what the threshold should be set at (probable, virtually certain, as defined by IAS 37).

Question 4

Elements for the statement(s) of profit or loss and OCI (income and expense), statement of cash flows (cash receipts and cash payments) and statement of changes in equity (contributions to equity, distributions of equity and transfers between classes of equity) are briefly discussed in paragraphs 2.37–2.52.

Do you have any comments on these items? Would it be helpful for the Conceptual Framework to identify them as elements of financial statements?

It will be helpful to define the objective of each of the financial statements and how they can be used jointly to understand the performance of the institution over the reporting period. This part must address various aspects (profits evaluated at a stage of substantial completion, holding gains and losses, conversion results, changes in accounting methodology and/or accounting policies…) of the performance and why various statements or indicators are needed, especially the relationships between OCI and P& L.
It must set also principles and criteria for recycling, as the current situation is highly unsatisfactory, with for example a recycling mechanism for investment bonds, but not for equities. It is difficult to understand the rationales supporting the current state of art in this matter.

Section 3 - Additional guidance to support the asset and liability definitions

Question 5

Constructive obligations are discussed in paragraphs 3.39–3.62. The discussion considers the possibility of narrowing the definition of a liability to include only obligations that are enforceable by legal or equivalent means. However, the IASB tentatively favours retaining the existing definition, which encompasses both legal and constructive obligations—and adding more guidance to help distinguish constructive obligations from economic compulsion. The guidance would clarify the matters listed in paragraph 3.50.

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

We agree with the proposal. Constructive obligations are a key element of the behavior of financial institutions. It cannot be deleted when considering the opportunity to record a liability

Question 6

The meaning of 'present' in the definition of a liability is discussed in paragraphs 3.63–3.97. A present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity's future actions. Three different views on which the IASB could develop guidance for the Conceptual Framework are put forward:

- *(a) View 1: a present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions.*
- *(b) View 2: a present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions.*
- *(c) View 3: a present obligation must have arisen from past events, but may be conditional on the entity's future actions.*

The IASB has tentatively rejected View 1. However, it has not reached a preliminary view in favour of View 2 or View 3. Which of these views (or any other view on when a present obligation comes into existence) do you support? Please give reasons.

We agree with view 2

Question 7

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

See above

Section 4 - Recognition and derecognition

Question 8

Paragraphs 4.1–4.27 discuss recognition criteria. In the IASB's preliminary view, an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular Standard that an entity need not, or should not, recognise an asset or a liability because:

- *(a) recognising the asset (or the liability) would provide users of financial statements with information that is not relevant, or is not sufficiently relevant to justify the cost; or*
- *(b) no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the asset (or the liability), even if all necessary descriptions and explanations are disclosed.*

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

This is also a crucial topic for the banking industry, as there are many transactions in this sector involving sales, buybacks or retention of a substantial part of risks inherent in the previous recorded assets.
We think first that such transactions must be looked through their substance, not on the legal form of the transaction. The second idea is, in that matter, prudence must be a dominant principle in determining the appropriate accounting treatment. It is often very difficult to assess the very part of risks transferred by a specific transaction, especially because that part of risk is seldom constant and depends frequently on the developments of the economic cycle. In these difficulties to analyze circumstances, we think it is more appropriate to err on a conservative side and, when an entity still bear a substantial share of risk after losing the control, derecognition is not appropriate in most cases.
We think that these broad principles must be part of the framework, even if we agree that specific standards can decline them on operational ground

Question 9

In the IASB's preliminary view, as set out in paragraphs 4.28–4.51, an entity should derecognise an asset or a liability when it no longer meets the recognition criteria.
(This is the control approach described in paragraph 4.36(a)). However, if the entity retains a component of an asset or a liability, the IASB should determine when developing or revising particular Standards how the entity would best portray the changes that resulted from the transaction. Possible approaches include:

- *(a) enhanced disclosure;*
- *(b) presenting any rights or obligations retained on a line item different from the line item that was used for the original rights or obligations, to highlight the greater concentration of risk; or*
- *(c) continuing to recognise the original asset or liability and treating the proceeds received or paid for the transfer as a loan received or granted.*

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

See question 8

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

Question 10

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

- *(a) the Conceptual Framework should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.*
- *(b) the Conceptual Framework should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. Two consequences of this are:*
  - *(i) obligations to issue equity instruments are not liabilities; and*
  - *(ii) obligations that will arise only on liquidation of the reporting entity are not liabilities (see paragraph 3.89(a)).*
- *(c) an entity should:*
  - *(i) at the end of each reporting period update the measure of each class of equity claim. The IASB would determine when developing or revising particular Standards whether that measure would be a direct measure, or an allocation of total equity.*
  - *(ii) recognise updates to those measures in the statement of changes in equity as a transfer of wealth between classes of equity claim.*
- *(d) if an entity has issued no equity instruments, it may be appropriate to treat the most subordinated class of instruments as if it were an equity claim, with suitable disclosure. Identifying whether to use such an approach, and if so, when, would still be a decision for the IASB to take in developing or revising particular Standards.*

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

Faithful representation cannot be achieved if form would be taken over substance. The frontier between equity and debt in the banking sector will be blurred in the near future by the issuance of bail in able instruments under various forms, as required by prudential regulation. In most cases, the probability that such instruments be converted or written down is very closed to zero, under a going concern hypothesis. So, the key point of any future definition of equity/liability instrument will be how to deal with remote events which are governed by the issuance contract.

For example, under Basel III, CoCos could qualify as either Additional Tier 1, Tier 2 capital or senior debt depending on the contractual terms. The selection of the trigger level and other loss absorbing mechanisms are largely determined by the trade-off between regulatory capital eligibility considerations and cost of issuance.

When qualifying for the Tier 1 category (Additional Tier 1) there should be no contractual obligation to pay interest and the instruments should have no fixed maturity date (perpetual). Even though those characteristics are included in the contracts, the focus in the term sheet is on interest rate, write down triggers and call possibilities for the issuers. This means the instruments are considered to be fixed income instruments with an enhanced credit risk. Such instruments are rated by rating agencies even though no contractual obligations exist to pay anything.

In practice the contract may be constructed in a way that would allow for either equity or liability classification under IAS 32 which may not always be in the line with markets perception of such instruments.

The IASB should keep these new types of instrument in mind when discussing the definitions. In addition, the equity classification presently prohibits those instruments from being included in hedge relationships even though they may be used to fund banking book positions (both interest rate and FX risks are managed this way).

Under Recovery and Resolution European Directive, the governments will be in the position to decide to write down the senior debt. The classification will be therefore driven by law, and may or may not be explicitly mentioned in the contract.

This further puts the emphasis on different kinds of subordinated debt instruments. Should the classification at initial recognition be based on the current conditions? Or should consideration be given what could happen in the future based on contractual terms or legal requirements? This is the key question for the banking industry the conceptual framework has to answer
As mentioned above, the contractual terms of certain instruments is based on the need of an entity to receive a certain regulatory treatment. We believe that it is important that framework/specific standards explores situations where the contractual terms are considered so unlikely to occur that they are disregarded in the initial and subsequent pricing unless and until the terms become relevant.

Question 11

How the objective of financial reporting and the qualitative characteristics of useful financial information affect measurement is discussed in paragraphs 6.6–6.35. The IASB's preliminary views are that:

- *(a) the objective of measurement is to contribute to the faithful representation of relevant information about:*
  - *(i) the resources of the entity, claims against the entity and changes in resources and claims; and*
  - *(ii) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.*
- *(b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;*
- *(c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI;*
- *(d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:*
  - *(i) for a particular asset should depend on how that asset contributes to future cash flows; and*

(ii) for a particular liability should depend on how the entity will settle or fulfill that liability.
(e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained; and
(f) the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.

Do you agree with these preliminary views? Why or why not? If you disagree, what alternative approach to deciding how to measure an asset or a liability would you support?

We agree with a, b, c, e and f. We disagree on d. We do not know how the board will determine how investors creditors and other lenders are likely to assess how an asset or a liability of that type (?) will contribute to future cash flows and why these various stakeholders will give the same answer to this question.

The conceptual framework must define criteria for choosing between various measurements methodologies under specific circumstances, in order to portray adequately the performance of the reporting institution. These criteria must be articulated around the notion of cash flows realization and how uncertain this realization is for any particular class of instruments.

Question 12

The IASB's preliminary views set out in Question 11 have implications for the subsequent measurement of assets, as discussed in paragraphs 6.73–6.96. The IASB's preliminary views are that:
(a) if assets contribute indirectly to future cash flows through use or are used in combination with other assets to generate cash flows, cost-based measurements normally provide information that is more relevant and understandable than current market prices.
(b) if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant.
(c) if financial assets have insignificant variability in contractual cash flows, and are held for collection, a cost-based measurement is likely to provide relevant information.
(d) if an entity charges for the use of assets, the relevance of a particular measure of those assets will depend on the significance of the individual asset to the entity.

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

We agree with a and d, partially with b as the horizon of the sale and the size of the position are relevant in the circumstances described and not taken into account in the proposal and disagree with c; we do not see why a variable rate loan held for collection does not fulfill the critera to be recorded at cost

Question 13

The implications of the IASB's preliminary views for the subsequent measurement of liabilities are discussed in paragraphs 6.97–6.109. The IASB's preliminary views are that:
(a) cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms.
(b) a cost-based measurement will normally provide the most relevant information about:
(i) liabilities that will be settled according to their terms; and

(ii) *contractual obligations for services (performance obligations).*

(c) *Current market prices are likely to provide the most relevant information about liabilities that will be transferred.*

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

We disagree with c. If a contractual liability is transferred to a third party at arm's length, it will be transferred in fine at par and there is no rational to record the market price. This criterion is relevant only when an entity, in a going concern situation, buys back its debt. Here, the market prices are relevant.

Question 14

Paragraph 6.19 states the IASB's preliminary view that for some financial assets and financial liabilities (for example, derivatives), basing measurement on the way in which the asset contributes to future cash flows, or the way in which the liability is settled or fulfilled, may not provide information that is useful when assessing prospects for future cash flows. For example, cost-based information about financial assets that are held for collection or financial liabilities that are settled according to their terms may not provide information that is useful when assessing prospects for future cash flows:

(a) *if the ultimate cash flows are not closely linked to the original cost;*

(b) *if, because of significant variability in contractual cash flows, cost-based measurement techniques may not work because they would be unable to simply allocate interest payments over the life of such financial assets or financial liabilities; or*

(c) *if changes in market factors have a disproportionate effect on the value of the asset or the liability (i.e. the asset or the liability is highly leveraged).*

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

The paragraphs related to measurement attributes are a very weak part of this exposure draft. The discussion remains centered on the hypothesis that market values (observed or modelizzed) give always the best prediction of future cash flows. The recent crisis has illustrated that this assumption is not fulfilled when the liquidity on a market dries up. When a fair value cannot be realized, it has no predictive power at all. This undisputable reality has to be taken into account in any discussion about measurement attributes

Question 15

Do you have any further comments on the discussion of measurement in this section?
We do not have further comments.

Section 7 - Presentation and disclosure

Question 16

This section sets out the IASB's preliminary views about the scope and content of presentation and disclosure guidance that should be included in the Conceptual Framework. In developing its preliminary views, the IASB has been influenced by two main factors:

(a) *the primary purpose of the Conceptual Framework, which is to assist the IASB in developing and revising Standards (see Section 1); and*

(b) other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8), including:
  (i) a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project;
  (ii) amendments to IAS 1; and
  (iii) additional guidance or education material on materiality.

Within this context, do you agree with the IASB's preliminary views about the scope and content of guidance that should be included in the Conceptual Framework on:
(a) presentation in the primary financial statements, including:
  (i) what the primary financial statements are;
  (ii) the objective of primary financial statements;
  (iii) classification and aggregation;
  (iv) offsetting; and
  (v) the relationship between primary financial statements.
(b) disclosure in the notes to the financial statements, including:
  (i) the objective of the notes to the financial statements; and
  (ii) the scope of the notes to the financial statements, including the types of information and disclosures that are relevant to meet the objective of the notes to the financial statements, forward-looking information and comparative information.

Why or why not? If you think additional guidance is needed, please specify what additional guidance on presentation and disclosure should be included in the Conceptual Framework.

Relevance must be highlighted as the main criteria for disclosures requirements. It is fascinating to observe that banks publish quarterly around 500 pages of financial statements and that in the same time, users complain about the lack of transparency of financial institutions. There is something wrong in the process, which has to be addressed expeditiously, at the conceptual framework level, because at the level of the individual standards, there is a temptation to add endlessly new items to increase the volume of disclosures.
We are not aware of significant issues on the presentation of financial statements themselves, except the fact that the cash flows statement does not display any pertinent information in the context of the banking sector.

Question 17

Paragraph 7.45 describes the IASB's preliminary view that the concept of materiality is clearly described in the existing Conceptual Framework. Consequently, the IASB does not propose to amend, or add to, the guidance in the Conceptual Framework on materiality.

However, the IASB is considering developing additional guidance or education material on materiality outside of the Conceptual Framework project.

Do you agree with this approach? Why or why not?

No, we are not aware of any issue on the ground of materiality

Question 18

The form of disclosure requirements, including the IASB's preliminary view that it should consider the communication principles in paragraph 7.50 when it develops or amends disclosure guidance in IFRSs, is discussed in paragraphs 7.48–7.52.

Do you agree that communication principles should be part of the Conceptual Framework?

Why or why not?

We agree, but we want to highlight that requirement f of § 7.50 conflicts often with principles a to e of the same paragraph. In such circumstances, preeminence should be given in disclosures to pertinence over comparability.

If you agree they should be included, do you agree with the communication principles proposed? Why or why not?

We agree (see above)

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

Question 19

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

Do you agree? Why or why not?

If you do not agree do you think that the IASB should still be able to require a total or subtotal profit or loss when developing or revising particular Standards?

in our view of the performance of an institution, P & L is the main figure which has to be highlighted in the statement of OCI. .

Question 20

The IASB's preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognised in OCI to be recognised subsequently in profit or loss, i.e. recycled, is discussed in paragraphs 8.23–8.26.

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

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

We agree that all items recorded in OCI must be recycled when realized in cash or equivalent

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.

Defining what is an institution's performance is in our view a prerequisite for answering to this question. If one estimates that any change in balance sheet figure is an expense or an income adequately portrayed in P & L, then OCI is superfluous. Conversely, if all these changes are not equivalent when assessing the performance of the firm, OCI is justified. So, it is necessary to discuss performance against various balance sheet's change to be able to answer to question 21.

Section 9 - Other issues

Question 22

Chapters 1 and 3 of the existing Conceptual Framework

Paragraphs 9.2–9.22 address the chapters of the existing Conceptual Framework that were published in 2010 and how those chapters treat the concepts of stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the Conceptual Framework highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters.

Do you agree with this approach? Please explain your reasons.

If you believe that the IASB should consider changes to those chapters (including how those chapters treat the concepts of stewardship, reliability and prudence), please explain those changes and the reasons for them, and please explain as precisely as possible how they would affect the rest of the Conceptual Framework.

Stewardship is an important element as management must be considered as users of financial information in the same way as investors and creditors. Basing a measurement on information that is used in managing the business is key to ensuring that the financial reporting is relevant, reliable and understandable.

Reliability is also key in measurement. Prudence must be the over-riding guide guiding principle in the IFRS framework. This is tantamount for the banking industry, where it is often difficult to have a holistic view of all risks embedded in financial transactions.

Stewardship, prudence and reliability must be the three pillars for financial reporting. It is not obvious they are considered as such in the 2010 litterature.

Question 23

Business model

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?

The business model is a concept use to describe broadly how the entity will realize its future cash flows, on the asset and on the liability side. So, the business model is crucial to understand how the future cash flows are generated. It must be a critical criterion for choosing measurement attributes, because it is meaningless to assume in measurement a process for cash flows realization which is excluded in the actions of the institution. But, we want to highlight that a business model is not dependent only from management's decisions. It depends also on the characteristics of the markets on which the institution operates. These two aspects, business model and proprietary markets are closely linked and must be considered together in the conceptual framework.

Question 24

Unit of account

The unit of account is discussed in paragraphs 9.35–9.41. The IASB's preliminary view is that the unit of account will normally be decided when the IASB develops or revises particular Standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information.

Do you agree? Why or why not?

The conceptual framework must only state that the appropriate unit of account depend from facts and circumstance and that, if in most of them, the individual contractual item is the more adequate, there are others where it is suitable to use a portfolio approach.

Question 25

Going concern

Going concern is discussed in paragraphs 9.42–9.44. The IASB has identified three situations in which the going concern assumption is relevant (when measuring assets and liabilities, when identifying liabilities and when disclosing information about the entity).

Are there any other situations where the going concern assumption might be relevant?

No.

Question 26

Capital maintenance

Capital maintenance is discussed in paragraphs 9.45–9.54. The IASB plans to include the existing descriptions and the discussion of capital maintenance concepts in the revised Conceptual Framework largely unchanged until such time as a new or revised Standard on accounting for high inflation indicates a need for change.

Do you agree? Why or why not? Please explain your reasons.

We agree.