German Banking Industry Committee

Die Deutsche Kreditwirtschaft

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Comments by the German Banking Industry Committee on DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*

14 January 2014

Dear Mr Hoogervorst,

In our capacity as the German Banking Industry Committee, we are pleased to have this opportunity to comment on the IASB Discussion Paper on the Conceptual Framework (DP/2013/1).

Just like the IASB, we believe that drafting a Conceptual Framework is an important basis for the future preparation and presentation of financial statements and for developing and revising standards. In this respect, we thus support the efforts by the IASB.

That being said, we see some need to review and clarify certain parts of the Framework which we would like to address below in our replies to the individual questions. In doing so, we have focused on what we consider to be the key aspects of the Framework.

The IASB has drawn up the Framework on the basis of the existing Framework, updating and improving it in order to adapt it to today's accounting practice. Certain issues have been added which were not included in the previous Framework. The IASB has declared its intention to create a conceptual basis for existing standards, meaning there should be no need to adjust them. We would nevertheless suggest conducting an impact assessment <u>before</u> publishing an exposure draft in order to identify any possible discrepancies between the new Framework and individual standards. Should significant discrepancies emerge, the proposals for the revised Conceptual Framework should be adjusted accordingly.

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We do support the IASB in its intention to design the Framework on the basis of principles. The Framework should hence focus on fundamental issues.

Please find below our detailed comments on the Discussion Paper.

Section 1

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 support the IASB's preliminary view that in justified exceptional cases there may be conflict between the requirements of individual standards and those of the Framework. The Conceptual Framework should basically serve as a generally valid framework and should be adhered to accordingly. We do believe, however, that in exceptional cases it can make sense to depart from the Conceptual Framework in order to avoid results that are not intended with the development of standards and to be able to sufficiently address special characteristics.

Section 2

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?

We consider the definitions of assets and liabilities put forward in the Discussion Paper to be sensible and understandable.

With regard to more detailed explanations, especially regarding the expansion of definitions and the omission of materiality, please refer to our answer to question 3.

Please refer to our answer to question 24 for our comments on the recognition of a physical asset as a physical object or as a right or bundle of rights. Our answer to question 6 contains our suggestions regarding the definition of "present obligation".

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?

Concerning (a) and (b)

As we understand it, the IASB's amendment of the definitions of assets and liabilities aims to eliminate the conflicts that exist between certain standards and the Conceptual Framework due to unsuitable or incomplete definitions in the Conceptual Framework. This means that there are no plans to expand the definition in order to cover a greater number of assets and liabilities. The IASB also explicitly pointed out in the public discussion of the DRSC that even though the revision of definitions can lead to more business transactions meeting the definition of an asset or liability, their recognition will continue to be determined in the individual standards and the revision of the Conceptual Framework does not hence necessarily mean recognising additional assets and liabilities.

In our opinion and also with a view to the IASB's intention, the omission of a propability threshold in the definitions of assets and liabilities should not mean that every business transaction must be recorded in the accounts even if the book value of the asset or liability, respectively, is equal to zero due to the unlikely probability of an inflow or outflow.

Concerning (c)

It is not clear to us, against this background, why the probability threshold should be dropped as a recognition criterion for assets and liabilities and why non-material items should be filtered out only at the valuation stage. We do not support this approach.

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?

Irrespective of the final definition of assets and liabilities, we consider the definition of profit and loss as a change in assets and liabilities to be sensible. We therefore continue to prefer the existing balance sheet-orientated approach.

<u>Section 3</u>

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 preliminary decision by the IASB to also keep constructive obligations in the definition of liabilities. The aim of financial reporting according to IFRS is to provide the best-possible picture of the economic situation of the reporting entity, so that users of financial statements are given a complete, unbiased and error-free presentation of net assets, financial position and revenue situation and hence help them to make their decisions. The principle of "substance over form" has a key role to play here. Information is useful for decision making if it reflects the economic content of a business transaction and its actual impact on the company's economic situation. This means that an orientation that is limited purely to the contract level is not sufficient.

However, the guidelines for constructive obligations additionally proposed in the DP could mean that the current provisions of IAS 37 regarding reorganisation plans may no longer be in line with the proposed new rules of the Framework if the company in cases like these has no obligation in relation to third parties and is not bound by its plan. We do believe, however, that a constructive obligation also exists if a company has no realistic alternative to a reorganisation plan so that obligations under such plans should be recorded as liabilities. We are therefore in favour of a broader definition of constructive obligations than proposed in the DP.

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.

As part of revising the rules for macro hedge accounting, the inclusion of deemed exposures in hedge relations (e.g. pipeline transactions) is being discussed. It is questionable whether these transactions meet the proposed definitions and recognition criteria of the Conceptual Framework. In this context and with a view to the parallel handling of the projects (Conceptual Framework and Macro Hedge Accounting), the IASB should ensure that no conflict arises between the standard for macro hedge accounting and the new Conceptual Framework already during the adoption of the latter.

Question 7
Do you have comments on any of the other guidance proposed in this section to support the asset and liability definitions?

No comment.

<u>Section 4</u>

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?

We agree with the basic idea of the IASB that assets or liabilities should generally not be recognised if this does not provide users of financial statements with any or only irrelevant information or if the information does not justify the cost involved.

The IASB wishes to delete the criterion laid down in the Framework up to now, i.e. that recognition should be carried out if a future economic benefit or inflow is probable, because this could lead to incorrect views and hence is not a suitable evaluation criterion. In its Discussion Paper, the IASB proposes that recognition should take place if none of the following exclusion criteria are applicable: The information is not relevant or does not justify the cost involved or its non-recognition leads to a faithful representation. The DP then lists as examples of irrelevant information criteria which are evaluated also with a view to their probability (section 4.26 (a) and (b)). We see this as a contradiction which does not counter-act the above-mentioned incorrect views. In our opinion, the deletion of the probability criterion neither improves nor simplifies the recognition rules. Instead, the negative distinction in the proposed new recognition criteria poses a greater risk of subjective evaluation leeway ("information that is not relevant").

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?

No comment.

<u>Section 5</u>

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?

<u>Concerning (a) and (b)</u>
We support the approach of the IASB which defines equity as a residual claim.

We therefore believe that the split between equity and liability should be maintained. Since at least one type of claim cannot be remeasured directly without remeasuring the entire entity, we feel that there will always be a distinction between equity and liability, even if not called by that name.

Moreover, we strongly advocate inserting the content of IFRIC 2 "Members' Shares in Co-operative Entities and Similar Instruments" into the Conceptual Framework. Due to IFRIC 2, an entity must consider all of the terms and conditions of a financial instrument, including relevant local laws, regulations and the entity's governing charter, to determine whether or not its shares have to be treated as equity or liability. The Conceptual Framework should acknowledge this important guidance.

<u>Concerning (c)</u>
We regard the considerations regarding a deadline-based remeasurement of equity classes and the so-called wealth transfer to be contra-productive in a Framework that aims to provide information that is relevant, understandable and clear cut. Furthermore, we are of the opinion that deadline-based remeasurement and a transfer of the difference in value in a statement of changes in equity is not in line with the determining character of equity shares as assets which are issued permanently and which cannot be claimed back by issuers. In our opinion, widely discussed measurement topics, such as the method of

recognition, complexity, comparability, principle of conservatism or understandability, should not form part of the statement of changes in equity.

Moreover, we see considerable obstacles and additional work for users when it comes to the implementation and mapping of a new measurement concept and the representation of the wealth transfer.

Section 6

Question 11
How the objective of financial reporting and the qualitative characteristics of useful financial information affect measurement is discussed in paragraphs 6.6–6.35. The IASB's preliminary views are that:

(a) the objective of measurement is to contribute to the faithful representation of relevant information about:
  (i) the resources of the entity, claims against the entity and changes in resources and claims; and
  (ii) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

(b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;

(c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI;

(d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:
  (i) for a particular asset should depend on how that asset contributes to future cash flows; and
  (ii) for a particular liability should depend on how the entity will settle or fulfil that liability.

(e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained; and

(f) the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.

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

We generally welcome the intention by the IASB to lay down in the Conceptual Framework that there is not just one measurement method for accounting according to IFRS and that the most suitable measurement method is applied in the individual standards, depending on the business transactions to be represented. However, it must be very clearly stated in the final Conceptual Framework that the Conceptual Framework does not specify the final allocation of measurement standards to certain types of assets and liabilities, but that the IASB merely serves as a guide and a decision aid for developing in each individual case the optimum measurement method and laying this down in the respective standard.

We do agree with the IASB that one criterion when choosing the appropriate measurement method should certainly be a balanced cost-to-benefit ratio.

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 generally agree with the IASB regarding the views described in paragraphs 6.73-6.96 as to which measurement method provides the most relevant information for which assets under normal conditions. As previously described in our answer to question 11, it should still be clearly stated that the information in the Conceptual Framework is merely a concept for developing requirements in the individual standards and that it should not be understood as a final allocation of measurement standards to certain types of assets.

Question 13

The implications of the IASB's preliminary views for the subsequent measurement of liabilities are discussed in paragraphs 6.97–6.109. The IASB's preliminary views are that:

(a) cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms.

(b) a cost-based measurement will normally provide the most relevant information about:

(i) liabilities that will be settled according to their terms; and

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

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

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

We generally agree with the IASB regarding the views described in paragraphs 6.97-6.109 as to which measurement method provides the most relevant information for which liabilities under normal conditions.

As previously described in our answer to question 11, it should still be clearly stated that the information in the Framework merely provides a concept for developing requirements in the individual standards and that it should not be understood as a final allocation of measurement standards to certain types of liabilities.

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 (ie the asset or the liability is highly leveraged).

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

We generally agree to the IASB's preliminary views but would like to once again point out here that the information in the Framework should merely provide a concept for developing requirements in the individual standards and that it must not be understood as a final allocation of measurement standards to certain types of assets or liabilities.

Question 15
Do you have any further comments on the discussion of measurement in this section?

No comment.

<u>**Section 7**</u>

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.

What is missing in the Framework is a clear distinction between information that is to be presented in the notes to financial statements and reporting obligations which go beyond this, for instance, in the management commentary. The Framework should especially include basic considerations regarding the distinction of disclosures in relation to the management commentary.

We do not consider the scope of the proposed reporting obligations regarding the type and extent of risks, including risks which result from assets and liabilities not recognised (outside the balance sheet), to be correct. Such extensive reporting obligations for assets and liabilities are contradictory to the idea of showing these assets and liabilities not as part of the (primary) financial statements. This contradiction also becomes especially apparent in section 4 (Recognition and Derecognition).

According to section 4, the Conceptual Framework is to contain provisions stating that an asset or liability is not to be recognised if the resultant information is irrelevant or would involve unreasonable costs. At the same time, however, this section (section 4.27) requires extensive information on unrecognised assets and the reasons for non-recognition.

Question 17

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

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

We welcome the initiative by the IASB to clarify further the concept of materiality with a view to the information in the notes to financial statements. By transferring the decision authority regarding the usefulness and relevance of certain information in each individual case, the economic situation of the reporting entity can be presented in the best-possible manner for users of financial statements.

Question 18
The form of disclosure requirements, including the IASB's preliminary view that it should consider the communication principles in paragraph 7.50 when it develops or amends disclosure guidance in IFRSs, is discussed in paragraphs 7.48–7.52.
Do you agree that communication principles should be part of the Conceptual Framework? Why or why not?

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

In line with the general principle orientation of the IFRS, the Conceptual Framework should only specify one concept for developing and implementing the scope of the notes to the financial statements required in the individual standards. The integration of all conceivable specific information in the notes to the financial statements as a catalogue of templates from which the requirements integrated into the individual standards can be selected undermines the attempted reduction of information overload which we consider to be urgently necessary.

The "Scope of the notes to the financial statements" (section 7.35 – 7.42) of the Discussion Paper should hence be revised before being included in the Exposure Draft. In particular, the presentation in section 7.35 of the scope of the notes to the financial statements to be specifically demanded goes far beyond the required principle orientation and does not in any way counteract "information overload" in the notes to the financial statements.

In order to integrate into the Conceptual Framework a concept for developing and implementing the scope of the notes to financial statements as required in the individual standards, we believe that it makes sense to define the aim of the scope of the notes to the financial statements in the Conceptual Framework and to introduce communication principles which form the basis for developing and implementing the specific requirements for the scope of the notes to the financial statements in the individual standards. The communication principles should hence be sufficiently abstract so that information in the notes to financial statements can be best adapted to the respective situation to be presented and the reporting entity.

<u>**Section 8**</u>

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?

We agree with the IASB's view that profit and loss is a permanent feature in the view and measurement both by the using entity and by the user of financial statements and that this should also continue to exist in the presentation of total profit or loss.

We believe that that the provisions for distinguishing OCI should be worked out more clearly.

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?

We continue to support he possibility of recycling (see also our answer to question 21).

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.

We support the broad approach 2b because in the case of long-term items it is particularly correct not to record the recognition results in profit and loss, and their presentation in OCI makes profit and loss more relevant and understandable.

<u>Section 9</u>

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.

No comment.

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?

It is our view that the business model approach is often the most useful way of presenting financial information in a manner that is relevant to a particular entity and the environment in which it operates and this should be given a prominent place in the CF.

Financial statements should provide information about the financial position of the entity and the effects of its transactions and other events, so that users can evaluate the prospects for future net cash inflows, and also how management is discharging its responsibilities for the entity's resources.

A properly articulated business model can help to communicate management's understanding of the business to the market. The business model should describe how the entity creates, delivers and captures value, reflecting how the business is managed. In the case of financial services firms, the business model will include a broader consideration of the relationship between assets and liabilities and how these are used to create value.

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?

We believe that it is important that the Framework does not define the unit of account as "the contract level". In certain circumstances, there are good arguments for using a unit of account that combines individual contracts and sometimes as part of a single contract or parts of contracts. The latter is normally expressed as the unit of account being a portfolio of components rather than the contracts as such (e.g. portfolio of interest rate risk or fx risk in different time bands or certain insurance risks within insurance contracts).

We agree with the IASB's preliminary view that the unit of account should be decided and determined when developing a particular standard. Having said that, the Conceptual Framework should explicitly state that the IASB must take the unit of account into consideration when developing new standards or guidance.

In this context, special reference must be made to the development of the new standard for macro hedge accounting. According to the IASB's current proposals, the determination of the hedging item departs from the original item of account of the respective financing instruments. The final Conceptual Framework and the standard should be aligned in order to avoid conflicts.

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 comment.

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.

Capital maintenance issues are closely linked to issues of company law and should hence be omitted from the Framework.

Yours sincerely,
on behalf of the German Banking Industry Committee
German Savings Banks Association

by proxy | by proxy

R. Goebel | D. Hildebrand

Dr. Ralf Goebel | Diana Hildebrand

The German Banking Industry Committee is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent more than 2,000 banks.