IFRS Foundation

8 January 2014

Subject: Discussion Paper DP/2013/1 – *A review of the Conceptual Framework for Financial Reporting*

Dear Sirs,

We thank you for providing us the opportunity to comment on the preliminary views raised in the Discussion Paper published in July 2013.

We are writing to you as a group of "long term investors" or LTIs, which share some specific special features. An important characteristic of LTIs is that they invest and provide funding to long term projects supporting public policy and meeting stringent financial criteria.

The four financial institutions contributing to this letter are the European founding Members of the Long-Term Investors' Club (LTIC), namely:

- European Investment Bank
- Caisse des Dépôts
- Cassa Depositi e Prestiti
- KfW

We consider that policy makers and international regulators around the world should work to create a regulatory and international accounting framework enabling financial institutions to focus more on long-term rather than short-term results, and more on investments supporting growth than on short-term profitability. In this context, we welcome the Conceptual Framework review initiated by the IASB.

We have considered the various questions raised in the Discussion Paper and focus our answers on the questions that we consider crucial to ensure an appropriate framework for the standard setting process. In particular, we want to stress that there is a need to give more prominence to the business model criterion in order to provide relevant and useful information to the users of the entity's financial statements.

You will find our detailed answers in the annex to this letter.

We remain of course available, should you wish further clarification on our opinion.

Best regards,

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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?

No specific comment.

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?

No specific comment.

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?

No specific comment.

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?

No specific comment.

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?

No specific comment.

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.

No specific comment.

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

No specific comment.

Section 4 Recognition and derecognition

<table><tr><th>Question 8</th></tr><tr><td>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?</td></tr></table>

We share the view, expressed in the Discussion Paper, that relevance and faithful representation should be considered when deciding on recognition of assets and liabilities. As stated in Paragraph 4.26 of the Discussion Paper, the Conceptual Framework should provide further guidance to help the IASB assess exceptions to recognition principles for example when recognizing an asset or a liability might not provide relevant information.

We share the view that introducing explicit probability thresholds in the Conceptual Framework would reduce flexibility in standards setting and prevent that an entity's business model is properly reflected.

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?

We agree with the preliminary views expressed in the Discussion Paper.

Unlike the risks-and-rewards approach, the control approach avoids the need to determine whether the entity has transferred sufficient risks and rewards to derecognize the asset or the liability. In many cases this assessment would be challenging, therefore we share the view that the control approach is to be favored. Nevertheless, the derecognition approach should consider the practicability of the assessment.

We believe that approach (a) and approach (b) provide more useful information than approach (c) when an entity retains a component of an asset or a liability.

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?

a) We agree with the definition of equity as a residual interest that is not directly remeasured. In general, there is at least one element of equity that cannot be directly measured (e.g. where no other equity instruments are issued, ordinary shares are not measured directly but as the difference between assets and liabilities). However this definition might create inconsistency with some secondary equity claims that, accordingly to the Discussion Paper, should be measured directly. Only primary equity can be considered as residual.

b) We agree with the definition of a liability as an obligation to deliver economic resources (the strict obligation approach). Under this approach all the equity claims are therefore classified as equity.

As a consequence of the definition of liability (i.e. obligation to deliver economic resources) the obligation to issue equity is not a liability, because an own equity instrument is not an economic resource of the issuer. Such an obligation is one form of a secondary equity claim, as stated in paragraph 5.7 (c) (a secondary equity claim is a present right or a present obligation to receive or deliver another equity claim).

We broadly agree with this conclusion, but we believe that, because of the differences between primary and secondary equity, it might be necessary to enhance the disclosure about the different classes of equity.

We support the view that obligations that arise only on liquidation of the reporting entity should not be treated as liabilities, given that financial statements are prepared on a going concern basis. For example, according to this view, payments to ordinary shareholders on liquidation are not liabilities.

c) No specific comment.

d) In case of no equity instruments issued, we believe that treating the most subordinated class of instruments as if it were an equity claim would not always provide a useful and faithful representation. This approach is similar to that of paragraphs 16A to 16F of current IAS 32 that in some cases have led to confusion and inconsistency.

Section 6 Measurement

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 broadly agree with IASB's views expressed under question 11.

In particular, we fully support the IASB's preliminary views that (1) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements and (2) 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.

In our opinion, it is key to consider how a particular asset or liability will impact the entity's future cash flows and give more prominence to the business model of the entity in determining the appropriate measurement bases for assets/liabilities. As it currently stands, the instruments characteristics are given too much primacy as compared to the business model. We elaborate further on the business model concept in our response to question 23.

Furthermore, we are convinced that limiting the number of different measurements used should be not be one of the prime IASB's purpose. Indeed, as mentioned above, we consider that the key objective of measurement is to ensure the right measurement in the right situation, or, in other words, that the measurement required for assets/liabilities conveys the right information to the users of financial statements from the entity's business model viewpoint.

In our opinion, requiring the same measurement method for identical assets used with different aims and contributing to future cash flows in different ways is harmful to the quality of financial information.

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.

In line with the points mentioned above, we agree that it is necessary to distinguish measurement bases of assets depending on the way an asset is used (i.e. depending on the way this asset will generate cash flows in line with the entity's business model) and therefore, in this respect, we support the IASB's preliminary views.

However, we believe that the four situations described in the Discussion Paper do not cover all the possible ways in which an asset contributes to future cash flows. More specifically, concerning the category b) ("assets contribute directly to future cash flows by being sold"), IASB's proposal does not distinguish assets held to be sold in a short term from assets held in a longer term perspective. As such, the categories defined in the Discussion Paper do not take into account all the possibilities where financial instruments can contribute to future cash flows of an entity.

As mentioned on several previous occasions, we consider appropriate to create an additional category for financial assets that are held as investments in a medium or long term perspective and that do not meet the definition of either the amortized cost category or the fair value through profit and loss category. Financial instruments included in this category would be measured at the lowest between the acquisition cost and value in use. Reversal of impairment through profit and loss should be allowed.

The concept of "value in use" is already defined by IAS 36 – Paragraph 6 : "Value in use is the present value of the future cash flows expected to be derived from an asset". In our opinion, this definition could be extended to financial assets when the business model of the entity is to hold these assets for a long period.

Under the above mentioned accounting rules, the income statement would therefore truly reflect the business model of entities holding financial instruments (including equity) over the long term. As such the key indicator of the performance measure would not be distorted by short term fluctuations of unrealized gains and losses.

The objective of the proposed accounting policy above is not to ignore the market value of the relevant assets at the reporting date which could also be provided in the notes to the financial statements in full transparency.

In order to reflect the business model of LTIs, some have proposed in the past to maintain the current AFS portfolio while modifying the current rules for impairment, including reversal in profit and loss. However, this proposal raises the issue of equity volatility (please refer also to our response to questions 19-21).

Nevertheless, this solution could be an acceptable compromise, in that financial statements would therefore provide "market value information" into the statement of financial position while avoiding distortion to the financial performance communicated in the statement of profit or loss by transitory gains and losses.

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 agree with the preliminary views expressed in the Discussion Paper.

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 agree with the preliminary views expressed in the Discussion Paper.

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

No 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*.

We welcome the IASB initiative to address presentation and disclosure aspects in the *Conceptual Framework* but we consider that a closer link should be made between the business model concept and the objective of primary financial statements.

Currently, the information provided to shareholders in the statement of financial position and in the income statement does not always appropriately reflect the business model of the entity's activity.

As a consequence, preparers need to create separate documents to explain to shareholders how the strategy has been translated into the financial statements. Over time this has led to too much and too complex information as well as, at times, misleading information being provided to the shareholders. It would be useful to simplify the disclosures so that only key and relevant information is conveyed to the users.

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 specific comment.

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?

We agree with the proposed communication principles in particular point (a) in paragraph 7.50 of the Discussion Paper i.e. promote the disclosure of useful information that is entity specific. As mentioned above, we consider that the business model concept should also be considered in that respect. We have elaborated further on the business model concept in our answer to question 23.

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 amending Standards?

We agree with IASB's view that the conceptual framework should require a total or subtotal for profit or loss.

Indeed, we are convinced that profit or loss remains the main indicator used by many stakeholders to asses an entity's performance.

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?

Our opinion is that all items previously presented in other comprehensive income should be recognized subsequently in profit or loss (ie recycled), except in the rare cases when such a recycle would not provide relevant information on the entity's performance.

We agree with the idea that recycling "protects the integrity of profit or losses as the primary source of information about the return an entity has made on its economics resources".

In the context of the issue we have raised above in our response to question 12 i.e. financial instruments held for a long term for subsequent sale, if the proposed accounting rules would be to recognise changes in market value of such instruments in OCI, then it is critical to define the right mechanism of recycle.

Indeed, selling these assets without recycling previously recognized gains/losses from OCI to profit or loss leads to denying the very concept of profit and loss and therefore, which would be in contradiction with the principle mentioned above in question 19 i.e. that the profit or loss remains the main indicator used by many stakeholders to asses an entity's performance.

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 approach 2B.

In particular, we agree with principle 3 under which an item that has previously been recognized in OCI should be reclassified to profit and loss when, and only when, the reclassification results in relevant information.

We believe that this principle should be applied by considering the entity's business model.

From our perspective i.e. long term investor business model, we believe that all of the following asset characteristics stated in Paragraph 8.88 of the Discussion Paper are met for recognition in OCI:

- the asset will be realized over the long term,
- the current period remeasurement is likely to significantly change over the holding period of the asset,
- and recognizing the current period remeasurement in OCI enhances the relevance and understandability of profit or loss "as the primary indicator of the return that the entity has made."

Therefore we believe that the Conceptual Framework should include a concept for profit or loss and recycling that is considered in conjunction with an entity's business model.

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*.

We consider that the concept of ‘prudence’ should be an element of the Conceptual Framework and the basis for the development or revision of accounting Standards.

The reasons put forward by the IASB to eliminate this concept from the Conceptual Framework included that ‘deliberately understating assets or overstating liabilities in one period often leads to overstating financial performance in later periods’ however, recent history has shown that it would have been appropriate to introduce more prudence in estimates.

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' concept should be a key element of the Conceptual Framework and should be the basis of the development or revision of accounting Standards.

As a long term investor with a specific business model, we consider that to adequately portray the economic reality of our activities, more prominence should be given to the business model concept from which the accounting treatment of transactions should then be derived. This implies that the Conceptual framework should make explicit reference to the business model when setting or revising accounting standards.

The need to give more prominence to the business model was recently highlighted in the European Commission long-term investment green paper consultation. In that context, EFRAG conducted a public consultation on characterising long-term investment business models from financial reporting perspective and recommended, on the basis of the input received, that 'any accounting requirements applicable to long-term investment entities should not ignore the interaction between the liabilities and the related assets when selecting measurement bases and defining performance reporting requirements'.

The business model concept would therefore be the most helpful criterion in defining **measurement**. For example, in the context of a "long term investment activities" business model, we consider that fair value is not the appropriate measure; it creates artificial volatility in that transitory unrealised results will not normally materialise.

The business model concept would also be useful in defining **disclosures.** Again in the example of long term investment activities, we believe that a more comprehensive analytical presentation could be put in place to help the readers better understand and identify such investments. Disclosure of transitory unrealised results could be done in the notes and would therefore avoid artificial volatility impacting the entity's results. Such approach would also be more transparent.

We consider that the IASB should define the 'business model' concept in general and recognise the 'long term investment' business model in particular. Even if this is far from straightforward, a proper definition of long-term investment with their specific features and specific accounting rules is required to provide a faithful representation of the economic reality.

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?

No specific comment.

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 specific 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.

No specific comment.