



To the members of the International Accounting Standards Board

Submitted electronically

Subject: Eumedion's response to IASB's 'Exposure Draft 2015/3 Conceptual Framework for Financial Reporting (the 'ED')'

Ref: B15.23

The Hague, 25 November 2015

Dear members of the IASB,

Eumedion appreciates the opportunity to respond to your request for views on the ED.

Eumedion is the dedicated representative of the interests of over 70 institutional investors, all committed to a long term investment horizon. Eumedion aims to promote good corporate governance and sustainability in the companies our participants invest in. We regard accounting standards as a critical part of a global financial infrastructure, especially since investors are dependent on the quality of accounting standards for allocating their own and entrusted capital. Together our participants invest over € 4 trillion of capital in equity and corporate non-equity instruments.

With regard to the ED, we confine our response to our main views by responding below to a selection of the questions in the ED.

If the IASB would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is Martijn Bos (martijn.bos@eumedion.nl, +31 70 2040 304).

Yours sincerely,

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Eumedion response to a selection of the questions in the ED

Our response to question 1a

Do you support the proposals to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources?

Eumedion believes that stewardship should be included as a primary objective for financial reporting for the following reasons. In our view providing information that is useful for assessing stewardship is as important as providing information to assess the prospects for future cash flows to an entity. We believe that the assessment of management's stewardship could require other relevant information than currently is required for assessing prospects for future cash flows. Defining stewardship as a separate primary objective would safeguard its role for instances where standard setting would be different for both mentioned objectives. Furthermore, we believe that the Conceptual Framework should contain more guidance on how to take the stewardship objective into account when amending current standards or developing new standards and interpretations. We would expect such change to help warrant that the financial accounts also provide information that helps investors exercise their fiduciary duty as engaged owners of capital provided to the entity. For example by requiring information that is helpful in judging to what extent management lived up to its fiduciary duties. We would consider the current impairment-only model for goodwill as an example of a measurement model that also serves the stewardship primary objective as impairments, unlike amortisation, could be indications of a failing acquisition strategy. Our request for 'Sources of dilution in shares outstanding' and 'Other information needs related to M&A', which is part of our upcoming response to the IASB's agenda consultation, also underlines the relevance of defining 'stewardship' as a separate primary objective.

Our response to question 1b

Do you support the proposals to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality?

We support the proposals and understand that the conceptual framework benefits from the described definition of prudence. We are pleased to note that the proposals of the IASB are very much in line with our comment letter on the topic of prudence¹. Even though there are many examples of existing Standards that demonstrate asymmetry in recognising liabilities versus assets, the starting point for standard setting should be neutrality. Of course, there could be a valid reason why the IASB would want to set a standard that incorporates asymmetry, but Eumedion would like the IASB to justify asymmetry, which is exactly what the proposed definition of prudence in the conceptual framework requires. There should be no need to justify why the IASB sets a standard that is neutral.

¹ <http://www.eumedion.nl/en/public/knowledgenetwork/letters/2014-05-eumedion-views-on-prudence.pdf>

Our response to question 1c

Do you support the proposals to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form?

We concur with the notion that for standard setting the substance of an economic phenomenon generally is more relevant than its legal form.

Our response to question 1d

Do you support the proposals to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant?

We concur with the proposed clarification.

Our response to question 6

Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?

We generally concur with the proposed approach, based on the logic presented in the basis for conclusions.

In particular, we prefer the generic reference to the relevance of 'business activities' in paragraph BC6.51² for individual Standards, as opposed to reverting to pre-defined business models as some have suggested. There is great merit in drafting Standards that adhere to business activities of which the nature can be distinguished by a matter of fact, as opposed to just an opinion, or management intent, or as opposed to making arbitrary judgments on pre-defined business models the start point for reporting. These latter alternatives are likely to result in less comparable reporting, and much more prone to manipulation of accounting outcomes.

We also concur with the notion in paragraph BC6.56 that reliability is one of the factors that should be considered in assessing a measurement basis, as in some cases, a measurement basis with a high degree of uncertainty (for example some derivatives for which there is no observable price) could still provide the most relevant information.

We do not agree with the notion that accounting choices only reduce comparability, as described in paragraph BC6.66. Accounting choices indeed affect comparability, but amounts that are mixed-measured as a consequence of ad hoc accounting choices are notoriously difficult to interpret, irrespective of comparability. For example, the existing accounting choice to value each individual 'Other entity' that adds up to the line-item 'Non-Controlling Interest' at either fair value or current book value results in a mixed-measured amount that hardly ever can be interpreted by investors. We therefore reiterate our request in our comment letter on the discussion paper³, which is to strengthen the language in the Conceptual Framework so all negative consequences of accounting choices are

² http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/May%202015/Basis-to-ED_CF_MAY%202015.pdf.

³ http://www.eumedion.nl/en/public/knowledgenetwork/letters/2014-01_response_iasb_dp_conceptual_framework.pdf

taken into account when setting standards, not just comparability. This request should not be interpreted as a request to abolish all accounting choices.

Our response to question 11

Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?

We would like to suggest that the objective of presentation of financial statements should also be that the linkage between the primary financial statements becomes evident. Where relevant, the definition of line-items and the level of granularity between the primary statements should be synchronised. The objective of linkage helps substantiate the request for applying appropriate granularity.

Our response to question 12 and question 13

Do you support the proposed description of the statement of profit or loss? Why or why not? If you think that the Conceptual Framework should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.

Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not? If you disagree, what alternative do you suggest and why?

We agree with the use of other comprehensive income (OCI). Generally, we also agree with the current use of OCI in the Standards and we do not expect changes in the Conceptual Framework to cause a major overhaul of the existing use of OCI.

We do not consider that the Exposure Draft provides sufficiently useful guidance to the IASB for future decisions about the use of OCI. We concur with the alternative view of IASB members Stephen Cooper and Patrick Finnegan on this topic⁴. Their alternative views are also in line with our concerns as mentioned in our comment letter on the Discussion Paper in which we underlined the need for criteria in the conceptual framework that provide 'sufficiently strong safeguards against a too frivolous use of OCI'.⁵

We would further expect any criteria to only apply to the standard setting process of the IASB, and not for use by individual reporting entities. However, this is not yet clear, which leaves room for improvement.

We consider the discussion on OCI to be related to the more general project on primary financial statements. We suggest that the IASB finalises the Conceptual Framework with the notion that the criteria for the use of OCI need more strengthening than the ED proposes, and that the IASB continues with the primary financial statements project and a targeted project that subsequently adds firm criteria for OCI to the Conceptual Framework.

⁴ http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/May%202015/Basis-to-ED_CF_MAY%202015.pdf

⁵ http://www.eumedion.nl/en/public/knowledgenetwork/letters/2014-01_response_iasb_dp_conceptual_framework.pdf