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Ref: ED 2015/3 – Conceptual Framework for Financial Reporting

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to this exposure draft.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

Our detailed answers to the specific questions posed in the ED 2015/3 – Conceptual Framework for Financial Reporting are set forth in the following pages.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Silvio Takahashi
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

CHAPTERS 1 AND 2—THE OBJECTIVE OF GENERAL PURPOSE FINANCIAL REPORTING AND THE QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION

Question 1—Proposed changes to Chapters 1 and 2

Do you support the proposals to:
(a) give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources;
(b) reintroduce an explicit reference to the notion of prudence (described as caution when making judgments under conditions of uncertainty) and to state that prudence is important in achieving neutrality;
(c) state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;
(d) clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and
(e) continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?
Why or why not?

Answer to question (1)

Answer to item (a): The 'Brazilian Accounting Pronouncements Committee' [here on, CPC] believes it is important to add the term 'stewardship of entity's resources' to the Accounting Conceptual Framework, as the way resources are managed by an entity should be associated with the entity's business model. And suggests the use of the term "accountability" too. Nevertheless, the CPC questions how and where it should be included.

Answer to item (b): The reintroduction of the term prudence has been analyzed, and we believe that the form and place of inclusion are fair.

Answer to item (c): We considered the explicit statement that a true representation reflects the economic phenomena, instead of merely reflecting its legal form, given that such concept is implicit in the adoption of the international accounting standards in Brazil.

Answer to item (d): As we consider that the measurement uncertainty is a factor that can make financial information less relevant, we agree with Board-IASB stating that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant.

Answer to item (e): The qualitative characteristics of the financial statements contained in the Conceptual Framework as key and of paramount importance to reach a useful financial information for decision-making by primary users are fair and we agree with the Board's approach. We believe that, even in case the Board-IASB maintains the expansion of the objective of the financial statements with the 'management's stewardship' concept, the current key characteristics remain.

CHAPTER 3—FINANCIAL STATEMENTS AND THE REPORTING ENTITY (NEW CHAPTER)

Question 2—Description and boundary of a reporting entity

Do you agree with:
(a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and
(b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25?
Why or why not?

Answer to question (2)

We considered the insertion of this chapter and the discussions held by the Board-IASB. There are theoretical grounds that will support the adoption of accounting standards in the Brazilian case law, given the inclusion of this chapter. Accordingly, we agree with the inclusion and weightings defined in the chapter.

We requested the Board-IASB to clarify and consider the following questions:

I. [Question 2 (a)]: With regard to the mention of 'portion of an entity, or two or more entities', can we consider a business or a joint operation? Yet in accordance with the conceptual framework, we consider that in practice it will be difficult to distinguish whether or not a portion of an entity could be separated from the rest without additional guidance; and,

II. [Question 2 (b)] Consider including the term liability in paragraph 3.19, given the possibility of an investment in a subsidiary or affiliate in relation to which the reporting entity has an obligation involving unsecured liabilities of the investee (paragraph 3.19: 'Hence, the investment in the controlled entity (the subsidiary) is reported as an asset' <u>or a liability</u> – term underlined to be included).

CHAPTER 4—THE ELEMENTS OF FINANCIAL STATEMENTS (NEW CHAPTER)

Question 3—Definitions of elements

Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity):
(a) an asset, and the related definition of an economic resource;
(b) a liability;
(c) equity;
(d) income; and
(e) expenses?
Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?

Answer to question (3)

The definition of the equity elements is aligned with the CPC's position. However, we would like to draw the attention of the Board-IASB to important points which may have been overlooked.

(A) **Liabilities**: we agree with the definition of the members, but would like the Board-IASB to consider some weightings on the description of present obligation to be disclosed in the answer to question 4.

(B) **Equity**: we consider appropriate the study, given the preparation and adoption of the accounting standards; the maintenance of the definition of such element appears to be appropriate, but we consider that the Board-IASB should prioritize the study in progress. However, we requested that the Board-IASB should reconsider the removal of paragraph 4.30 (and BC 4.47) or explain the reasons for including this paragraph, since it conflicts with the criteria set out in IAS 32 to classify the financial instruments to be settled upon delivery of entity's shares (delivery of a variable x fixed quantity). We believe that any specific guidance about this issue should be done in the project focused on indentifying the differences amongst liabilities and equity, and not in the Framework.

(C) **Income / Expense**: we believe it is relevant to include the definition of OCI in the conceptual framework, as well as criteria for recycling. But we agree with the difficulties envolved in this mission. Should the Board-IASB decide not to include such definition, please include in the Basis for Conclusions the reason for not including the definition. Furthermore, the Board-IASB should make an explicit consideration of such elements whenever directly impacting equity ("Other Comprehensive Income"), and not only mention such differences in the chapter on measurement. We propose these elements to be defined as "the book value in other comprehensive income and that for the period".

We suggest that IASB does not use income and expense in the OCI discussions, only components, adjustments, trying not to introduce confusion. And we suggest an special treatment for revaluation in the CF.

Question 4—Present obligation
Do you agree with the proposed description of a present obligation and the proposed guidance to support that description? Why or why not?

Answer to question (4)

We consider that the definition given by the Board-IASB should be revised, as it does not cover the possible wide range of present obligations. Given the liabilities concept set forth in IAS 8, specifically in relation to constructive obligations, we believe that the Board-IASB should revise the criterion as to an entity's ability to avoid transfer of funds. This arises from the fact that the constructive obligations are those a company voluntarily proposes to comply with and are not restricted to legal requirements. Should the Board-IASB considers the maintenance of the term 'practical ability to avoid', we believe that the members should explicitly define the term.

Question 5—Other guidance on the elements
Do you have any comments on the proposed guidance? Do you believe that additional guidance is needed? If so, please specify what that guidance should include.

Answer to question (5)

CPC requests to the Board-IASB:

(A) We request the Board-IASB to define the components which will be recognized in "Other Comprehensive Income" (OCI) and otherwise to clearly explain in its basis for conclusion the reasons not to do it;

(B) Currently, the recognition of regulatory accounts is being discussed by the Board. However, the conceptual framework appears not to include the regulatory assets and liabilities concept. It should be interesting for the Board to shed more light into how this matter will be addressed by the framework and better explore the definition of contracts for valuable consideration in this context.

(C) Given that enforcement contracts have been put into discussion, we request the Board-IASB to describe the differences between an enforcement-driven and an enforceable contract. In practice, we noted that some entities of these sectors do not recognize their contractual rights and obligations;

(D) Define your example of 'other equity claims' in paragraph 4.45.

CHAPTER 5—RECOGNITION AND DERECOGNITION (NEW CHAPTER)

Question 6—Recognition criteria

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

Answer to question (6)

We agree with the method proposed. The recognition criterion should consider the key characteristics of the accounting information and its cost-benefit ratio. We call on the Board-IASB to let us know, plus the cost limitations upon accounting recognition, its views on the benefit of the information considering the aspects discussed in chapters 1 to 3 in its bases for conclusion or partially in the exposure itself.

Question 7—Derecognition

Do you agree with the proposed discussion of derecognition? Why or why not? If you do not agree, what changes do you suggest and why?

Answer to question (7)

We agree with the method proposed by the Board-IASB. We suggest, however, that the IASB members should detail how the criterion can be met. The latest Discussion Paper raised the use of two approaches[2] removed by the Board-IASB in this Exposure Draft, as the Board-IASB does not define that approach is the best.

We propose that the Board-IASB include the discussion of both approaches and align the derecognition with such approaches, citing the moment on which an approach would be better than other.

[2] (i) Control approach – derecognition as a basis for the recognition criterion; or (ii) Approach of trade-off between risk and benefit – an entity would maintain the recognition of the element until the date on which it would no longer be exposed to the risks and benefits generated by the element.

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CHAPTER 6—MEASUREMENT (NEW CHAPTER)

Question 8—Measurement bases

Has the IASB:
(a) correctly identified the measurement bases that should be described in the Conceptual Framework? If not, which measurement bases would you include and why?
(b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?

Answer to question (8)

CPC proposes the Board-IASB to reassess the preparation of this chapter. We consider that the current format of this chapter may restrict the Board-IASB actions in preparing future accounting standards, with regard to the choice of the measurement methods. This chapter should have a more comprehensive approach on the definition of the measurement methods in order to encompass all metrics possible to be used, in accordance with the accounting theory. It seems that, when analyzing the measurement metrics currently in force in some standards, some could not be encompassed by the definition of the chapter. For example: replacement cost, fulfillment cost, restated historical cost and net realization value of inventories. These measurement metrics are addressed by the current accounting standards and can be detected in the companies' measurement bases.

Accordingly, we propose that the Board-IASB considers including the entry and shipment price concept, that is, the price to be considered both from the entity's and the market's viewpoint. This chapter should have a more consistent approach with the current framework of accounting standards, e.g. IFRS 13, a factor we do not consider currently met. In this more theoretical and conceptual concept, there are more advantages for the Board-IASB to more freely prepare accounting standards.

We consider, therefore, that the Board-IASB: (a) did not properly identify the measurement metrics which can be used, in accordance with the accounting theory. We consider appropriate including the conceptual framework of other measurement metrics. Accordingly, we consider that the Board-IASB should not propose a chapter in the conceptual framework which may restrict the Board-IASB actions in preparing accounting standards, but rather propose a chapter with more comprehensive definitions. (b) correctly identified the information given and the advantages and disadvantages of the measurement metrics 'chosen' by the Board-IASB.

Question 9—Factors to consider when selecting a measurement basis

Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?

Answer to question (9)

CPC believes that the Board-IASB more properly identified the qualitative characteristics classified as factors to be considered in the measurement bases and in the initial measurement of an element. CPC, however, considers important that the IASB members hold forth on these factors in case of loss of currency purchasing power, given an inflation economy, and the eventual mismatch of a non-monetary item.

Question 10—More than one relevant measurement basis
Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?

Answer to question (10)

CPC considers appropriate the discussion and inclusion of the aforesaid paragraphs and welcomes additional analyses by the Board-IASB on the impact of such measurements in 'long-term assets and liabilities'. We appreciate receiving insights from the Board-IASB into potential impacts of these excerpts on later revisions of the accounting practices.

CHAPTER 7—PRESENTATION AND DISCLOSURE (NEW CHAPTER)

Question 11—Objective and scope of financial statements and communication
Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?

Answer to question (11)

CPC agrees with the changes purposed and is in accordance to the use of the presentation and disclosure of the financial statements as an entity's communication tool.

Question 12—Description of the statement of profit or loss
Do you support the proposed description of the statement of profit or loss? Why or why not? If you think that the Conceptual Framework should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.

Answer to question (12)

CPC believes that, for the assertive answer to the questions, there are some considerations addressed to the Board-IASB of paramount importance for description in a proposal:

(A) Definition of the "financial performance" concept; and

(B) Conceptual definition of when adjustments should be presented in OCI.

Whereas the weightings discussed in item 35, we agree with the Board-IASB's view of the importance of the statement. We kindly ask the IASB members to reconsider the aforesaid excerpts and reassess the dissenting opinions on the texts that expose considerations equivalent to those of the CPC.

Question 13—Reporting items of income or expenses in other comprehensive income
Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not? If you disagree, what alternative do you suggest and why?

Answer to question (13)

We believe that the Board should clearly define the concept of other comprehensive income, as well as listing the transactions that would be classified within this account. We have not noted significant progress in relation to this item in comparison with the current conceptual framework.

Question 14—Recycling
Do you agree that the Conceptual Framework should include the rebuttable presumption described above? Why or why not? If you disagree, what do you propose instead and why?

Answer to question (14)

CPC believes that the Board-IASB should reconsider the "recycle" concept maintained in the proposed Conceptual Framework. We agree with the alternative opinion of Board members Mr. Stephen Cooper and Mr. Patrick Finnegan that there is no sufficient guidance on recyclable items, since it does not set out any reasons beyond relevance, and that the concept should be more clearly defined. We remind that IAS 1 defines the items that should be considered by the preparers when classifying revenues or expenses as OCI.

In our opinion, all items, except revaluation, should be "recycled", yet difficult to set when. Theoretical bases could be exposed for deferral, e.g. eligibility and timeliness of the event vis-à-vis its impacts on the entity's performance. Our opinion in in line with that issued by the Board-IASB, i.e. no revenue or expense should be excluded from P&L for the year on a permanent basis. However, it is worth noting that in the current framework of accounting standards some items will never be of a 'recycle' type, e.g. an entity's revaluation reserve.

CHAPTER 8—CONCEPTS OF CAPITAL AND CAPITAL MAINTENANCE

There were no modifications.

OTHER COMMENTS

Question 15—Effects of the proposed changes to the Conceptual Framework
Do you agree with the analysis in paragraphs BCE.1–BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?

Answer to question (15)

CPC weighted on the effects exposed to the effectiveness of the proposal and:

(A) Agrees that it should go into effect immediately after the publication of the new Framework;

(B) Agrees that there is no need for a transition guide;

(C) Agrees that the accounting policies drafted by the entities in view of the conceptual framework (when there was no specific pronouncement on the matter) should be revised retrospectively;

(D) Agrees with the 18-month transition period;

(E) Agrees with replacing the references to the former conceptual framework to the new one; and

(F) Disagrees that the conflicts/inconsistencies found should not be addressed in other pronouncements.

(G) Believes that the IASB should consider other effects on the adoption of the conceptual framework.

We encourage the Board-IASB to amend any misstatements between the proposed conceptual framework and the current accounting standards as soon as possible, upon issuance of the final version of the conceptual framework, disclosing also any other misstatements reported during discussion and outreach.

Question 16—Business activities

Do you agree with the proposed approach to business activities? Why or why not?

Answer to question (16)

We consider that an entity's business model should be considered when preparing the financial statements. In fact, we consider that the proposal is already been considered by the entities. Accordingly, we agree with the proposal presented by the Board-IASB.

Question 17—Long-term investment

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

Answer to question (17)

CPC evaluates that the Board-IASB's analysis relied on the Conceptual Framework based on staff paper 10 F of September 2014. We consider that the Board-IASB should reassess its conclusions and run future projects to check this issue. We consider that there are practical questions under discussion about the issue, e.g. measurement of long-term liabilities at current rate, given the high fluctuation of foreign exchange rates, there is a high impact on the short-term performance, and such effects may be reversed later on. In this case, we consider that the conceptual framework does not address responses to the debate, failing to address, for example, the possibility of measuring this liability in light of estimated long-term rates or using the OCI as an intermediate account before going to profit and loss statement.

Question 18—Other comments

Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).
As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.

Answer to question (18)

We strongly recommend that the document be shortened and linked only to the really relevant matters and concepts with possibility of a long life. We also, kindly request the Board to reconsider and to add a clear definition of other comprehensive income.