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International Accounting Standards Board (IASB)
Attn: Mr Hans Hoogervorst, Chairman
30 Cannon Street
London EC4M 6XH
United Kingdom

Luxembourg, 27 NOV. 2015

Re: Conceptual Framework for Financial Reporting
Exposure Draft ED/2015/3
(Ref.: GT4 CL 001-15)

Dear Mr Hoogervorst,

On behalf of the Luxembourg accounting standards setter (CNC Luxembourg), we are writing to comment on the Exposure Draft ED/2015/3 on the "*Conceptual Framework for Financial Reporting*" (the 'ED').

Overall, we welcome the progress made by the IASB in improving the Conceptual Framework for Financial Reporting (CF), following up on the Discussion Paper: "*A Review of the Conceptual Framework*" on which we have also commented. The CF should set out general principles applicable across industries and remain rather stable over time. There should be an appropriate balance between the CF being high-level enough (which we believe it is) and the more specific requirements of individual standards.

If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

Alphonse Kugeler
Chairman – CNC Luxembourg

• Question 1 – Proposed changes to Chapters 1 and 2

(a) We support the proposal to give more prominence to the assessment of management's **stewardship** of the entity's resources. We also believe that the readability of Chapter 1-The objective of general purpose financial reporting has improved. Paragraph 1.23 provides a few specific examples of what management's responsibilities might be in that respect, however this could be developed further and in a broader way. We could also imagine having some more high-level principles in the conceptual framework and a separate practice statement / application guidance in order to help constituents apply this in practice. We are of course conscious that it will be difficult where to draw the line: this could go from a few disclosure indications to some form of integrated reporting sometime in the future (value chain, environmental / social impacts, compliance, ...) or anything in-between in the meantime.

(b) We agree with the reintroduction of the explicit reference to the notion of **prudence**, described as the exercise of caution when making judgements under conditions of uncertainty. We concur with the view that this definition of prudence is fully compatible with neutrality (neither overstating nor understating assets, liabilities, expenses or income). At the same time, we agree with the IASB that not all asymmetry is incompatible with neutrality (see BC2.14 and BC2.15), as is currently the case in IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The IASB might even consider to move this wording out of the basis of conclusions into the text of CF.

(c) We are also fine with **faithful representation** providing information about the **substance of an economic phenomenon** instead of merely providing information about its legal form.

(d) We understand and support that the paragraph on measurement uncertainty has been inserted in order to take into account the concerns raised with respect to the missing reference to the trade-off between relevance and reliability (included in the pre-2010 CF). We believe the term has been changed in order to avoid confusion. However, we wonder what 'other factors' are meant in paragraph 2.13 of the ED and would suggest to clarify the wording. Also, while we agree that measurement uncertainty has an influence on relevance, it might also interact with faithful representation.

(e) We support to keep relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information and not to revert back to reliability for the reasons mentioned in BC2.24-BC2.25.

Question 2 – Description and boundary of a reporting entity

We are fine with the description of the **role of financial statements**, but were wondering why paragraph 3.6 does not also mention the statement of cash flows and the statement of changes in equity. Those two statements provide important information to users about an entity's cash flow position and its transactions with owners.

We agree with the fact that a reporting entity is not necessarily a legal entity and that it can comprise a portion of an entity, or two or more entities. We wonder whether 'unconsolidated financial statements' should not be named 'separate financial statements' in order to be consistent with the wording in IAS 27. Also, even though we understand what is meant by 'direct control only' and 'both direct and indirect control', we believe the wording should be somewhat aligned to the definitions of consolidated and separate financial statements in IAS 27 paragraph 4 and the word 'control' might be avoided (as it is not the same notion as the one in IFRS 10).

We also believe that a reference to control (as in IFRS 10), joint control (IFRS 11) and significant influence (IAS 28) might be interesting to have in this chapter in order to provide a link to the accounting consequences of different levels of involvement between entities.

We are also not sure whether paragraph 3.23 is true in absolute terms. Even though consolidated accounts present extremely important information about the group as a whole, individual/separate financial statements of the parent may be useful to different users (such as employees, existing/potential clients or suppliers, ...).

Question 3 – Definitions of elements

Question 6 – Recognition criteria

Question 7 – Derecognition

We generally agree with the proposed definitions of elements for the sake of simplicity and clarity. We also broadly agree with the recognition criteria (relevance, faithful representation and cost / benefit balance, although this last one should probably be further ring-fenced) and additional sub-factors (existence uncertainty, low probability of a flow of economic benefits, measurement uncertainty), as well as with the derecognition criteria (control / risk & rewards-mix). However, as already mentioned when commenting on the DP, we are still not sure about the impact of the definition change on the number and types of assets / liabilities, in combination with the recognition / derecognition criteria and measurement principles, this albeit the fact that the IASB's intention is not to either increase or decrease assets and/or liabilities.

While we agree with equity being the residual interest in net assets, we strongly encourage the IASB to work on the **debt / equity issue** in a separate project. The outcome should be reflected in the CF at a later stage. As such, we agree with the alternative view of S. Lloyd / P. Finnegan. There is an urgent need to reduce the complexity of IAS 32, especially in order to address the problems related to the classification of instruments with characteristics of both liabilities and equity.

Concerning the definitions of income and expenses, the reference to the concepts of revenue / expenses arising in the course of the ordinary activities (needed anyway for the scope definition of IFRS 15) and gains/losses could have been kept for completeness purposes.

With respect to paragraph 4.52, we support the equivalent importance of the statement of financial position and financial performance and the fact that users need information about both.

Question 4 – Present obligation

We agree with the proposed description of a present obligation based on the practical inability to avoid the transfer and a past event (view 2 in the DP).

The IASB is conscious that the proposed approach in the CF conflicts with IFRIC 21 for levies that accumulate over time but are payable only if a further condition is met. Had the IASB chosen a different general approach in the CF, there would have been conflicts with other standards (IAS 34 or IAS 19, see BC4.54). The IASB's decision seems to us as being the best possible compromise. However, the inconsistency should not be left pending and the matter should be addressed within IFRIC 21 (either in the form of an amendment to IFRIC 21, if believed necessary, or the departure from the CF for this particular case of levies needs to be explained).

Question 5 – Other guidance on the elements

The part on '**executory contracts**' seems to be in conflict with existing accounting practices and IFRS 15 (at contract inception, the obligation and the right should be measured at the same amount). In this respect, we wonder whether the wording provided in the BC might not be better suited to explain how this works.

The section on 'Reporting the substance of contractual rights and contractual obligations' could also be included with paragraph 2.14 or as application guidance thereof.

We also believe that the proposals on '**unit of account**' should be streamlined, i.e. keep paragraphs 4.57-4.59 and 4.61. Any specificity could be dealt with at standard level.

Question 8 – Measurement Bases

(a) We generally agree with the measurement bases as described by the IASB, historical cost and current value, and also with the distinction between fair value (perspective of market participants) and value in use (entity-specific perspective). However, at the same time, the description and categorization of the 'current cost' in paragraph 6.18 is somewhat confusing, due to its mixed attributes.

(b) We also support the analysis of the related advantages and disadvantages.

Question 9 – Factors to consider when selecting a measurement basis

Question 10 – More than one relevant measurement basis

While we can agree with taking the qualitative characteristics as a starting point for the reflection, we find it difficult to apply this guidance in practice. We also wonder whether such guidance is needed in the CF in the first place; another conceivable solution might be more specific and focused guidance at standard level. There is a lot of text, many repetitions with chapters 1 & 2 and potential overlaps with the P&L / OCI section. The paragraphs describing the advantages / disadvantages of different measurement bases might be even more useful for the assessment of factors to consider.

We agree that sometimes more than one measurement basis is needed to provide relevant information.

Question 11 – Objective and scope of financial statements and communication

We agree with the objective and scope of financial statements. We are however unclear about how the section on **presentation and disclosure** is going to interact with the amendments to IAS 1 and the upcoming 'Principles of Disclosure'-project in the context of the disclosure initiative ('moving target').

Question 12 – Description of the statement of profit or loss

Question 13 – Reporting items of income and expenses in other comprehensive income

We agree with the statement of **P&L** being the **primary source of information about an entity's financial performance**, as a rebuttable presumption. However, the question of when to use OCI has not been sufficiently tackled and will be left to individual standards. Also, the meaning of paragraph 7.23(b) is not clear to us. We are conscious about the fact that this is a very difficult task and that no conclusive answers or proposals could be provided by any of the IFRS stakeholders up to this stage. However, we believe that such a fundamental concept cannot simply be left aside and that there is a need for a clear basis and principles. We understand that a broader project on the structure of primary financial statements with a focus on performance presentation is on the IASB's radar, albeit in the more distant future and without resources being allocated as of today. We can only encourage the IASB to proceed with this as soon as possible.

Question 14 – Recycling

We agree with **recycling** as being **the default way of doing**. Unfortunately, this goes against IFRS 9 for the equity FVOCI category. In general, the discussion about recycling is linked to the one on P&L / OCI in the sense that everything depends on whether P&L is viewed to be the 'one and only' performance figure (in which case every OCI element ultimately needs to pass through P&L) or whether OCI is considered another, equivalent measure of performance.

Question 15 – Effects of the proposed changes to the Conceptual Framework

We tend to agree with the transition and effective date as proposed. Concerning the status of the CF, although conflicts with existing standards will not automatically lead to changes in those standards, an assessment of such conflicts should be made on a timely basis.

Question 16 – Business activities

We prefer the CF not to include a general discussion on the role of **business models** and agree that the nature of an entity's business activities plays different roles in different aspects of financial reporting (BCIN.32). This should be a standard-by-standard consideration.

Question 17 – Long-term investment

We agree with the IASB not to refer explicitly to the business activity of long-term investment for the reasons stated in BCIN.38 (a) & (b).

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