

January 14, 2014

IFRS Foundation Publications Department  
30 Cannon Street  
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**Re: Discussion Paper – *A Review of the Conceptual Framework for Financial Reporting***

The Canadian Institute of Actuaries (CIA) is the national organization of the actuarial profession in Canada. The CIA establishes the Rules of Professional Conduct, guiding principles, and monitoring and discipline processes for qualified actuaries. All members must adhere to the profession's Standards of Practice. The CIA follows its Guiding Principles, including Principle 1, which holds the duty of the profession to the public above the needs of the profession and its members. The CIA also assists the Actuarial Standards Board in developing standards of practice applicable to actuaries working in Canada.

We appreciate the opportunity to offer our comments on the discussion paper entitled *A Review of the Conceptual Framework for Financial Reporting*. We have responded to a number of the questions that were included in the document. For any questions where we have not responded, then we are either neutral or have no opinion.

**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 are in agreement with these preliminary views. We feel that the framework will be useful to actuaries, both as preparers of financial statements and as users of those 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?*

We agree with the definitions as stated. However, we feel that it would be beneficial to expand this section to deal with the treatment of subsequent events.

### **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?*

We agree with these views. Probability considerations are more appropriate when dealing with measurement, as opposed to recognition.

### **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 this view. We feel that it is appropriate to consider the reasonable expectations of other parties.

### **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.*

*Our preference is for View #3. We believe this provides for more realistic recognition as soon as the entity's discretion is circumscribed.*

### **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?*

*Although we generally agree with the reasoning presented here, we would like to suggest that providing an estimate is a better approach than presenting a zero value. If there is uncertainty around the amount, then this level of certainty should be disclosed, along with the associated risk.*

### **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 approaches a) and b). Approach c) appears artificial, and is unnecessary if approach b) is properly applied. We do want to note that there may be situations where it is not possible to derecognize a liability. An example would be a property and casualty occurrence insurance policy, where a latent claim may arise and be reported many years after the policy has expired.

### **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?*

We agree with these views, with the exception of d). The strict obligation approach clearly identifies obligations and retains equity as the residual. We disagree with (d) because it unnecessarily contemplates deviating from this strict obligation approach. An exception to this could be a mutual insurance company, or another entity organized in a similar matter.

## **Questions 11-15**

### **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?*

### **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.*

### **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.*

### **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?*

### **Question 15**

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

We cannot disagree with anything proposed in Questions 11, 12, 13, and 14. However, we do believe that the Conceptual Framework should state a preference for fair value measurement, and a fulfilment approach for liabilities (i.e., 13(a)), except where cost-based measurement is clearly more consistent with the objectives of financial reporting. Actuarial methods and approaches may be useful for a variety of cash-flow-based measurements and we agree that probability weighting and the time value of money should be taken into account in such measurements.

## **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 agree with the views presented here. However, we would like to see section 7.35 expanded to include disclosure of the approaches taken for managing the indicated risks. As well, paragraph 7.50(f) should have a specific reference to the cost-value relationship of required disclosures.

## **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?*

Additional guidance on the application and meaning of materiality would be useful, since it is a key concept in financial reporting.

### **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 that communication principles should be included and we agree with the principles proposed. A key test of disclosure should be how well it communicates the relevant information.

### **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 this view.

### **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, i.e., 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 consider the objectives of what is included in the P&L compared to comprehensive income should be part of the conceptual framework. Depending on the objective the arguments for whether some items should be recycled or not can be more effectively addressed. An example of where this view would work is in an insurance company context. In this circumstance, we believe that all OCI items should be recycled through the P&L, if and when the relevant event occurs. Recycled items should be reported on a separate line in the P&L with detailed disclosure in the Notes. This will retain the usefulness of the other lines in the P&L while providing a comprehensive picture. It might be useful to find a different term for “recycling” to avoid possible perceptions of double counting.

### **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.*

Approach 2A makes sense from an insurance company standpoint, since the investment and management of assets is part of their business. However, other companies do not have asset management as part of their business model, and are compelled to do so solely by virtue of having a pension plan.

### **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?*

We agree the business model concept would benefit from being better defined. It should be done broadly, and not at the individual company level. At the level of service contracts, risk assumption, and matching of assets and liabilities, the business model concept is essential for financial reporting. If done at an individual company level, it becomes too subjective, would not achieve the goal of comparability, and would be difficult to apply in practice.

### **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?*

We agree that these three situations are the ones that should be included, and do not believe any others should be included.

### **Conclusion**

We thank you for offering us the opportunity to provide our comments. Please contact us if you have any further questions.

Respectfully submitted,



Jacques Lafrance  
CIA President