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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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22 January 2016

Re: Exposure Draft *Conceptual Framework for Financial Reporting*

Dear Sir/Madam,

We are pleased to have the opportunity to provide our comments on Exposure Draft *Conceptual Framework for Financial Reporting* (the ED).

We appreciate the IASB's efforts to develop a proposal to revise and amend the existing *Conceptual Framework* in order make it clearer and more complete.

However, we have some general concerns on the proposals, as explained better in the Appendix:

- with reference to *stewardship*, we support the IASB's proposal to give more prominence to the importance of providing information needed to assess management's stewardship provided that this information remains solely part of the information used to make decisions about whether to buy, sell or hold an investment and does not represent an objective of financial statement in its own right;
- we are not convinced about the IASB's proposal about the reintroduction of the *prudence* as part of the faithful representation. It should be clarified that the concept of prudence is related to the asymmetry in recognition and measurement rather than to the caution in making estimates in situations of uncertainty. In this way it would be clear that it is a concept addressed to standard setters and to the preparer when applying the accounting standards;
- we agree with the IASB's proposal to insert an explicit reference to *substance over form* in the ED provided that this concept remains directed towards the IASB when using it in standard-setting and, therefore, that this principle remains declined in the individual standards, as has always been;

- the proposed changes to the current definitions of assets and liabilities may have some "*unintended consequences*" that should be represented by the IASB in an exhaustive report on the potential impact on the current standards;
- we disagree with the removal of the probability threshold in the recognition of assets and liabilities;

Our detailed responses to the ED questions are in the Appendix.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò

(Chairman)

Question 1– Proposed changes to Chapters 1 and 2

Do you support the proposals:

a) ***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;***
b) ***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;***
c) ***to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form;***
d) ***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; and***
e) ***to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?***

Why or why not?

With reference to the *stewardship*, we support the IASB's proposal to give more prominence to the importance of providing information needed to assess management's stewardship and we agree with the *Basis for Conclusion* (par. BC1.10) that this information is solely part of the information used to make decisions about whether to buy, sell or hold an investment. Indeed, we believe that the main objective of financial reporting should remain to provide useful financial information to the primary users in making decisions about providing resources to the entity. Therefore, we think that the assessment of stewardship should not be identified as an objective in its own right because the same information is relevant in making investment decisions and in assessing stewardship. Besides, it is important to highlight that the identification of the assessment of stewardship as an objective in its own right could introduce different levels of materiality in the financial reporting: one for the assessment of the profitability of the entity and another for the assessment of the management.

Regarding *prudence*, we are not fully convinced about the IASB's decision to re-introduce this concept into the Conceptual Framework because it could appear in conflict with neutrality. In fact, it is not possible to affirm that it is necessary to avoid bias in the selection or presentation of financial information and, at the same time, to require caution when making judgements under conditions of uncertainty. In fact, every judgement includes uncertainties. For this reason, the reintroduction of prudence is acceptable only if it refers exclusively to the standard-setter when establishing whether to provide asymmetric recognition of elements of financial statements in a specific standard.

We support the IASB's proposal to insert an explicit reference to *substance over form* in the ED and we agree with the wording. It is fundamental that the concept of *substance over form* remains directed towards the IASB when using it in standard-setting and, therefore, that this principle remains declined in the individual standards, as has always been. However, the concept of substance over form will continue to have a role of guidance for the preparers in the circumstances in which there is a lack in the accounting rules for a specific case. Finally, it is essential that the reference to the "*reporting the substance of contractual rights and contractual obligations*" is confirmed in the chapter dedicated to the elements of financial statements.

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 of the ED (replicated in paragraph 50(a) – (b) above); and***
- ***b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25 of the ED (summarised in paragraph 50(c) – (e) above)?***

Why or why not?

In our opinion, the chapter on reporting entity, as proposed in the ED, is not particularly useful. It mainly replicates concepts that are already stated in relevant standards, such as IFRS 10 and IAS 27. The definition of reporting entity may play a role in the discussion on whether a financial instrument should be classified as equity or liability. If it is given prominence to the entity point of view, for instance, an instrument that gives right to the counterpart to receive a variable number of equity instruments may be classified as equity since it does not affect the resources of the entity, whilst if it is given to owners, the same instrument may be a liability since it could affect the value of the shares held.

Question 3 – Definitions of elements

Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity):

1. ***an asset, and the related definition of an economic resource;***
2. ***a liability;***
3. ***equity;***
4. ***income; and***
5. ***expenses?***

Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?

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?

We believe that the proposed changes to the current definitions of assets and liabilities move both from the desire to eliminate the recognition criteria (through the removal of the "expected flows" notion) and the need to justify the changes to the current accounting standards (ie IAS 37 and IFRIC 21). Although it could be sharable, we suggest IASB to perform an exhaustive report on the potential impact of the proposed changes on the current standards if the new definition would be applied. We would not take the risk, for example, that because of the new definition of liability, executory contracts could give rise to the recognition of liabilities.

Notably, the introduction of the concept of "*practical ability*" in the definition of *present obligation* may have some "*unintended consequences*". Considering the commitments deriving from the future development of the economic activity of the entity (*economic compulsion*) as obligations, could justify the recognition of those commitments, that are currently described in the notes, as liabilities.

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.

Regarding the *unit of account,* we agree with the sentence in the ED (par. 4.59) that it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, with reference to the accounting of loans, the single contract is the unit of account at initial recognition; however, for the measurement purposes (ie in determining the loan losses), different contracts could be aggregated. Although we believe that a measurement unit of account could be larger than the one at initial recognition, we do not see merits if it is smaller. Generally speaking the unit of account at recognition should be as small as possible (usually the contract), then it could be aggregated for measurement.

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?

We disagree with the removal of the probability threshold in the *recognition* of assets and liabilities.

During the past years, the probability threshold has not raised significant problems and its removal would lead to the immediate recognition of provisions even if it is not likely to occur. Besides, in the past, the IASB has been criticized with reference to the project on IAS 37, in which the IASB proposed the removal of the probability threshold for the recognition of the provisions.

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?

We agree with the proposed discussion of *derecognition*.

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.

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?

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?

We agree that the *statement of profit or loss* is the primary source of information about an entity's performance for the period. We believe that the *other comprehensive income* (OCI) should be used, basically, only when primary users need information about the *fair value* of some items but the related volatility is not worthy to be presented in profit or loss.

We agree with the IASB's proposal that profit or loss should be "*as inclusive as possible*". In fact, it seems appropriate to reduce the use of the OCI because there are several difficulties in identifying this statement in terms of information value.

Finally, we believe that it should be clear that no income and expense should be permanently excluded from the statement of profit or loss.

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

Do you agree with the analysis in paragraphs BCE.1–BCE.31 of the ED? Should the IASB consider any other effects of the proposals in the Exposure Draft?

We appreciates the IASB's efforts in the analysis in paragraphs BCE.1-BCE.31 about the effects of the proposed changes to the Conceptual Framework. We note that the analysis carries out the expected effects only on a limited number of standards. A complete analysis of the implications for all the other standards would be welcome and would be useful to obtain a complete overview of potential inconsistencies between the proposals in the ED and the existing standards.

For example, in terms of definition of present obligation the ED states that "*an entity has a present obligation to transfer an economic resource if both: (a) the entity has no practical ability to avoid the transfer; and (b) the obligation has arisen from past events; in other words, the entity has received the economic benefits, or conducted the activities, that establish the extent of its obligation*". The concept of "practical ability" could open the door to interpretations that an obligation exists if to avoid the transfer an entity should stop running its business. An extreme case, for example, could be related to an entity affirms to have a liability for future lease contracts just because it is necessary to continue running its business in the future, although it has not entered into the lease contract yet. Minimal changes to basic concepts could have major impacts on specific accounting standards and their interpretation, therefore we suggest IASB to perform an exhaustive report on the potential impact of the proposed changes on all the current standards.