View metadata, citation and similar papers at core.ac.uk

brought to you by CORE

provided by Institutional Knowledge at Singapore Management University

Singapore Management University
Institutional Knowledge at Singapore Management University

Research Collection School Of Accountancy

School of Accountancy

12-2016

Theory and practice of the proposed conceptual framework: Evidence from the field

Kevin OW YONG
Singapore Management University, kevinowyong@smu.edu.sg

Chu Yeong LIM
Singapore Institute of Technology

Pearl Hock-Neo TAN
Singapore Management University, pearltan@smu.edu.sg

DOI: https://doi.org/10.1016/j.adiac.2016.04.001

Follow this and additional works at: https://ink.library.smu.edu.sg/soa_research

Part of the Accounting Commons, and the Corporate Finance Commons

Citation

OW YONG, Kevin; LIM, Chu Yeong; and TAN, Pearl Hock-Neo. Theory and practice of the proposed conceptual framework: Evidence from the field. (2016). *Advances in Accounting*. 35, 62-74. Research Collection School Of Accountancy.
Available at: https://ink.library.smu.edu.sg/soa_research/1543

This Journal Article is brought to you for free and open access by the School of Accountancy at Institutional Knowledge at Singapore Management University. It has been accepted for inclusion in Research Collection School Of Accountancy by an authorized administrator of Institutional Knowledge at Singapore Management University. For more information, please email libIR@smu.edu.sg.

Published in Advances in Accounting, Volume 35, 1 December 2016, Pages 62-74.
http://doi.org/10.1016/j.adiac.2016.04.001

Theory and practice of the proposed conceptual framework: Evidence from the field

Kevin Ow Yong [a,*], Chu Yeong Lim [b,1], Pearl Tan [a,2]

[a] School of Accountancy, Singapore Management University, 60 Stamford Road, Singapore, 178900
[b] Singapore Institute of Technology, 10 Dover Drive, Singapore, 138683

Keywords:
Conceptual Framework
Fair value accounting
Other comprehensive income

A B S T R A C T

We provide survey evidence of chartered accountants' perspectives on the proposed conceptual framework of the International Accounting Standards Board. Our survey obtains their views on the changes in the definitions of assets and liabilities, recognition criterion, and additional guidance in these areas, as well as issues relating to other comprehensive income, business model-based accounting, and choice of measurement basis. Our field evidence suggests broad consensus with respect to most of these changes. The areas that generate the most disagreement among our respondents relate to the removal of economic benefits in the proposed asset definition, the proposal to remove the minimum probability threshold from the asset recognition criterion, and the use of fair value as a measurement basis for certain difficult to measure assets. Overall, our results provide interesting insights regarding how chartered accountants view the proposed conceptual framework.

1. Introduction

Our study seeks to inform the debate on fundamental shifts in accounting thought in the proposed IASB's Conceptual Framework. We provide field evidence on chartered accountants' opinions with respect to some of these proposed changes. Historically, the role of the conceptual framework in accounting has been the subject of much debate (Macve, 2010). For example, theoretical research on the information perspective is critical of the usefulness of the conceptual framework in negotiating the tension between relevance and reliability of financial information (Christensen, 2010). On the other hand, other scholars strongly advocate the necessity of a conceptual framework in any credible standard-setting endeavor to ensure consistency and to demonstrate technical competency (Boyle, 2010; Macve, 1981, 2010). Regardless of the criticisms, the conceptual framework is a critical component in the architecture of accounting standards, and paradigmatic shifts in this component would impact the accounting of the future.

The conceptual framework presents the purest articulation of the standard setters' views on the fundamental concepts that would guide future accounting standards and practice. Our paper provides evidence of how chartered accountants view the proposed conceptual framework and whether there are differences in opinions between those of chartered accountants and the standard setters. Archival studies typically present *ex post* evidence subsequent to the issuance of a standard, whereas the survey methodology allows us to capture *ex ante* evidence of accountants' views on changes made to accounting concepts as proposed by standard setters. Accountants have their own collective wisdom and familiarity with real-world issues and pressures acquired through years of experience. On that same note, they are conditioned by their experience and may be less imaginative in responding to new situations (Gray, Shaw, & McSweeney, 1981). We expect that there would be differences of opinion between the views of accountants and those of the standard setters. Hence, the proposed conceptual framework presents an excellent opportunity for us to assess the receptivity of accountants to changes in deeply entrenched accounting concepts. The focus of our study is not on a document *per se* but the concepts that undergird the proposals. Hence, this study obtains field evidence on opinions on the conceptual foundations that will shape accounting practice in future.

As the contribution of Asia to the global economy increases, the Asian voice is particularly important to the IASB as it seeks to extend its global reach. Singapore is a leading global financial centre and seeks to position itself as a major accountancy hub. It is English speaking, inherits the British governance and legal infrastructure, and the "Anglo-Saxon" mode of accounting during its colonial period. In the post-independence period of 50 years, Singapore has gone on to establish its own unique identity in establishing high standards of government, education, professional, and business practices. The Global Financial Centres Index ranks Singapore as the fourth most competitive financial centre in the world just behind New York, London, and Hong Kong (Yeandle & Mainelli, 2015). Singapore is also ranked consistently within the top 10 countries in the world in terms of GDP per capita (Knoema, 2015).

* Corresponding author. Tel.: +65 6828 0575; fax: +65 6828 0600.
E-mail addresses: kevinowyong@smu.edu.sg (K.O. Yong), ChuYeong.Lim@SingaporeTech.edu.sg (C.Y. Lim), pearltan@smu.edu.sg (P. Tan).
[1] Tel.: +6592 2021; fax: +6592 1190.
[2] Tel.: +65 6828 0221; fax: +65 6828 0600.

The accounting bodies in Asia have been participating more actively in giving feedback to the IASB on their projects. Collectively, the Asian-Oceanian Standard Setters Group (AOSSG) formed in 2009 has made their views known to the IASB. Singapore is one of the founding members of the AOSSG. Hence, our survey is relevant in capturing views from a group of accountants that is becoming more important in the global economic and accounting landscape.[3]

We solicit views of chartered accountants from Singapore on the proposed revisions to the definitions of assets and liabilities, additional guidance on applying the definitions, proposed guidance on asset and liability recognition and de-recognition, other comprehensive income, business model-based accounting, and measurement basis. Our survey respondents are members of the Institute of Singapore Chartered Accountants (ISCA) with differing seniority levels and employer firm sizes, and they work in a diverse range of industries. Generally, they possess accountancy degrees with at least three years of working experience in accounting and finance positions. To qualify for this survey, they must be chartered accountants with the Institute. We obtain their views through an online survey in collaboration with ISCA.

Our key findings fall in three broad categories. The first category relates to the elements of financial statements. We find some resistance among our respondents with respect to the proposed asset definition. The new asset definition emphasizes economic resource over economic benefits. In addition, the minimum probability threshold as implied in the term "probable" is removed. These proposed changes are perceived as being too radical by some of our respondents. The respondents who disagree with the proposed asset definition mainly have disagreements with respect to the underlying premise that an asset could exist without producing future economic benefits. While they agree with the definition of economic resource as a right capable of producing economic benefits, they disagree with replacing the term "economic benefits" with "economic resource." They also think that there could be interpretation issues if the proposed asset definition relies on a term that is separately defined. On the other hand, the majority of our respondents agree with the proposed definition of liability. This is because they think that the proposed definition of a liability is simpler and easier to understand, and it places greater weight on the existence of an obligation. Interestingly, our findings thus indicate that our respondents have asymmetric views with regard to the proposed asset and liability definitions despite the fact that both definitions include economic resource as the new operative term.

The second set of results relates to respondents' views on other comprehensive income (OCI). The IASB has explored the need for OCI, the presentation of OCI, and whether OCI should be recycled to profit or loss. Our survey provides evidence that our respondents continue to support the need for OCI to be presented separately from net income. Some expressed the view that OCI tends to be non-operating in nature, and are mainly unrealized income changes. While they recognize that some net income items embody these features, they feel that having OCI separated from net income better represents the reporting entity's financial performance. They also believe that financial statement users have already learned to interpret the financial performance in its current form of presentation since the revised implementation of IAS 1 *Presentation of Financial Statements* that delineates OCI from net income in 2009. Thus, they agree that the IASB should focus on the presentation guidance rather than the definition of OCI. Finally, most of them continue to support the recognition of existing OCI items.[4]

Our final set of results relates to issues regarding business model-based accounting and measurement bases. The IASB's view is that the application of the business model concept in developing accounting standards enhances the relevance of financial statements. Our survey respondents mainly agree that the reporting entity's business model should be used as a basis to determine whether assets and liabilities should be reported at fair value or historical cost, and whether fair value changes should be reported in net income or OCI. They consider fair value to be a more appropriate measurement basis than historical cost for assets and liabilities held for trading purposes, but they consider historical cost to be a more appropriate basis for assets and liabilities held for use within the business or held for passive investment. In the same vein, they think that fair value changes should be recognized in net income for assets and liabilities held for trading but recognized in OCI for assets and liabilities held for use or for passive investment.

2. Overview of issues in the proposed conceptual framework

The IASB's Conceptual Framework for Financial Reporting sets out the concepts that underlie the preparation and presentation of financial statements (IASB, 2015). The existing conceptual framework has its roots in earlier pronouncements that date back to 1989. The conceptual framework serves as guidance to accounting standard development and accounting practices. The standards developed prior to the advent of the conceptual framework are more likely to reflect consensus in practice rather consistent principles. The accounting practices developed at the local level by firms could be subjective and dependent on individual preparer/auditor judgment (McGregor & McCahey, 2013; Zeff, 1999). Hence, standard setters took on the job to develop a conceptual framework to provide a coherent set of concepts and principles so that the accounting standards and practices are consistent. This consistency is needed given the internationalization of company businesses and the political, subjective, and piecemeal practice-oriented development of standards at the local level (Camfferman & Zeff, 2007; Gray et al., 1981).

In July 2013, the International Accounting Standards Board (IASB) issued a discussion paper (DP) on the Conceptual Framework for financial reporting in a move to revise the existing Conceptual Framework (IASB, 2013). The IASB identified a number of problems with the existing framework relating to inadequate coverage of important areas, unclear guidance, and out-of-date principles that fail to reflect the current thinking of the IASB. The DP thus sets out preliminary views on areas that would potentially have a major impact on financial reporting in general. In May 2015, the IASB issued an Exposure Draft on the Conceptual Framework. The Exposure Draft largely retains the positions adopted in the DP. Hence, the result of this study is relevant to the current decisions of the IASB at the time of writing.

Given the long history of the existing framework in accounting thought and practice (Peasnell, 1982; Zeff, 2013), it would be interesting to assess accountants' responses to the various proposed changes in the conceptual framework project. For example, economic interests affect the willingness of different stakeholders to accept changes. Glaum and Mandler (1997) finds German managers are more positively inclined towards the then current German accounting and more negatively towards U.S. GAAP than German academics.[5] The conceptual framework project itself is not immune to political lobbying by various stakeholders (Hines, 1989). The early conceptual framework project was criticized by stakeholders for departures from the accepted accounting practices at that time (Bloom, Collins, Fuglister, & Heymann, 1994). While the conceptual framework has been largely developed from a user perspective with a focus on "decision usefulness" of financial statements (Gassen & Schwedler, 2010; Zeff, 1999), accountants may take different views depending on their incentives. Other studies also provide evidence that accounting standard setters with financial services background are more likely to propose fair value methods in standards (Allen & Ramanna, 2013), and that auditors support

[3] On the other hand, we acknowledge that this is a single country study; hence, the results might differ if the same survey was conducted in a different country.

[4] These OCI items are foreign currency translation difference, fixed asset revaluation reserve, gains/losses on the remeasurement of available-for-sale securities, gains/losses on re-measurements of defined benefit pension plans, and gains/losses on cash flow hedging instruments.

[5] Arguably, academics might be more independent than managers with respect to changes imposed by accounting standards.

aggressive accounting methods for clients with relatively moderate engagement risk (Hackenbrack & Nelson, 1996).[6,7]

In sum, we are interested to examine whether there would be differences of opinion between the views of accountants and those of the standard setters. Our paper thus seeks to obtain respondents' views on a number of critical changes proposed in the conceptual framework. Obtaining stakeholder views through surveys has been used in a number of studies on perceptions on changes in accounting standards and attitudes towards harmonization (for example, Barniv & Fetyko, 1997; Glaum & Mandler, 1997; Harding, 1997; McEnroe & Sullivan, 2006, 2011; Schwartz & Reckers, 1987; Walker & Jones, 2012). These studies dealt with prospective changes in accounting standards or regulations that would impact different stakeholder groups. Since these surveys are performed *ex ante* to the proposed changes in standards, they provide exploratory evidence on the extent of possible lobbying and other reactions by stakeholders that may have an impact on the actual changes. For example, McEnroe and Sullivan (2011), in their survey in 2009, find that U.S. investors are satisfied with the U.S. accounting model and do not desire a movement towards the adoption of the International Financial Reporting Standards (IFRS) by the original due date of 2015. With hindsight, their survey was informative as the movement to adopt the IFRS has been postponed indefinitely. Hence, the survey technique is predictive of the likely lobbying activities (by way of feedback or other forms) that may have a bearing on the final decisions of the standard setters. The underlying concepts in the proposed conceptual framework, if supported, have a major impact on the shape and form of future accounting decisions. Hence, it is useful to obtain evidence on how a knowledgeable group of respondents perceive these changes.

3. Research design

We develop a questionnaire to garner feedback on issues raised in the proposed conceptual framework. We formulated these questions based on the DP that was issued in 2013. In our questionnaire, we asked specific questions on a wide variety of issues including proposed changes to the definitions of financial statement elements, fair value accounting, business model-based accounting, and issues pertaining to other comprehensive income. They were either asked to convey their views using a seven-point Likert scale or to select specific choices (e.g., historical cost versus fair value measurement basis).[8] Our survey respondents were also given the opportunity to give additional comments, if necessary, to explain their choices.

We work together with the ISCA to distribute our survey questionnaire via an electronic mail to all members of the society. We develop the survey questionnaire while ISCA administers the surveys by sending emails on the surveys to all its members.[9] ISCA held the personal data on survey respondents, which is not transferred to us. ISCA removed the personal identification information before sending us the survey responses. In order to enhance the response rate, ISCA gave 20 shopping vouchers of amount twenty Singapore dollars to selected survey respondents based on a random draw. Selected respondents who won the shopping voucher were informed by ISCA via e-mail. The survey respondents were asked to provide informed consent online before starting the survey.

Our survey respondents are broadly dispersed across different age-groups, working experience, industries that they work in, and job responsibilities. The majority of our survey respondents are working professionals in their thirties (43%). Our survey respondents also comprise middle managers or executives holding senior level positions in their forties (21%), as well as young adults below the age of thirty (26%). Finally, 10% of our survey respondents are in their fifties.

In terms of the industries and firms that they work with, 16% work in the financial services sector and 17% are from professional services. The rest (67%) are widely dispersed across various industries. Close to half of our survey respondents (44%) work in private companies. Twenty-five percent work in public-listed firms and 17% work in sole proprietorships or partnerships. Thirty-four percent of these firms are small; their total annual revenue amounted to less than S$50 million. Forty-five percent of our survey respondents work in mid-size firms (annual revenue up to $1 billion), and 21% of our survey respondents work in large companies with total annual revenues exceeding S$1 billion. We obtained 174 complete responses from the survey study.[10] Table 1 reports the demographics of our survey respondents.

With regard to issues pertaining to financial statement elements, we ask our survey respondents questions on their views regarding various proposed changes to the definitions of financial statement elements (e.g., "asset," "liability," and "economic resource"), issues regarding control of resources, probability thresholds and questions relating to constructive obligations, and other liability-related issues. We also provide an illustration to assess how our survey respondents view what a present obligation should encompass.

With regard to issues pertaining to other comprehensive income, we ask our survey respondents whether they agree that the IASB should continue to focus on the presentation guidance of OCI rather than develop an operational definition of OCI. We also ask whether they think it is necessary for OCI items to be presented separately from net income. Finally, we ask them whether all items of income and expense presented in other comprehensive income should be recycled into profit or loss.

With regard to business model-based accounting, we ask our survey respondents whether they agree whether the reporting entity's business model should be used as a basis for determining whether assets and liabilities should be reported at fair value or historical cost. We also ask them whether they think that the following categories of assets and liabilities: (i) assets and liabilities held for trading purposes, (ii) assets and liabilities held for use within the business with other assets, and (iii) assets and liabilities held to maturity for passive investment should be reported at fair value or historical cost. Likewise, we ask them whether fair value changes should be reported in net income or other comprehensive income. Finally, we assess their views as to the appropriate measurement basis for 10 different types of assets and liabilities.

4. Elements of financial statements

The IASB proposes to refine the definitions of the elements of financial statements in the proposed conceptual framework.[11] Boyle (2010) emphasizes the importance of definitions of elements in the conceptual framework for consistency. The definition, recognition and measurement issues are often fused in the discussion of assets and liabilities in accounting literature. The IASB seeks to better delineate the definition

[6] Another study on setting the accounting rules into law in Germany finds that industry preparers exert the greatest influence on accounting regulators versus auditors and academic experts during the lobbying process, although their influence depends on the support of either the auditor or the academic group (McLeay, Ordelheide, & Young, 2000).

[7] We also conduct additional cross-sectional empirical tests to ascertain if there are differences in opinions across our respondents who perform different roles (e.g., auditors versus preparers). In general, we do not find any systematic differences when we partition our sample into smaller subgroups.

[8] The seven-point Likert scale is in the range of (1) strongly disagree, (2) disagree, (3) slightly disagree, (4) neither agree nor disagree, (5) slightly agree, (6) agree, and (7) strongly agree.

[9] ISCA's membership database totaled approximately 28,000 members. However, some of their members may not have updated their email addresses.

[10] Although our response rate (0.6%) might seem low by conventional standards, it is comparable with the response rates from previous questionnaires distributed by the institute.

[11] The elements of a firm's financial position are: assets, liabilities, and equity. The elements of a firm's performance are income and expenses. These elements form the basic pillars of accounting, with discussions in books and journals traced back in decades to 1970s, 1980s, and 1990s (Anthony, 1983; Baxter, 1996; Cramer & Neyhart, 1976; Dopuch & Sunder, 1980). Arthur Wyatt applied an asset-liability approach, focusing on changes in values of elements in the assets and liabilities but Sybil Mobley used the transactions approach, realization and matching principles (Cramer & Neyhart, 1976).

Table 1
Sample composition.

Panel A: Age-groups and number of years of working experience

Age groupings	No.	%	Working experience	No.	%
<30 years	45	26	< 5 years	49	28
30–39 years	75	43	5–9 years	43	25
40–49 years	36	21	10–19 years	55	32
≥50 years	18	10	> 20 years	27	16
Total	174	100		174	100

Panel B: Industry, firm type, and firm size

Industries	No.	%	Firm type	No.	%	Revenue	No.	%
Financial services	28	16	Private firms	77	44	<S$50 mil	59	34
Professional services	29	17	Listed firms	43	25	$50–99 mil	25	14
Corporate sector	99	57	Public sector	15	9	$99–999 mil	53	20
Others	18	10	Others	39	22	≥S$1 bil	37	21
Total	174	100		174	100		174	100

from the recognition of an asset and a liability. For example, the focus of the proposed definition of an asset is on the asset as an underlying resource rather than the ultimate inflow of economic benefits that flow to the resource.

The IASB is of the view that the emphasis should be on the capability that generate the future economic benefits and cash flows rather than on the benefits and cash flows. These capabilities are defined as economic resources. The IASB proposes a new definition for an economic resource as being a right, or other source of value, that is capable of producing economic benefits. Specifically, the IASB proposes to revise the definition of an asset as follows: "a present economic resource controlled by the entity as a result of past events." Arguably, there might be potential confusion on the distinct use of the term "economic resource" and "economic benefits." The IASB tries to separate the results ("economic benefits") from the rights, capabilities and sources of value ("economic resource"). Broadly speaking, the definition of assets focuses on the inputs and/or processes of value creation and not the output that is expected to result from the resource. There is also a shift in emphasis from the uncertain future economic benefits to the present existence of an economic resource (the rights). The IASB also feels that there is no need for the probability of cash flows to meet a minimum threshold in the asset definition. Nonetheless, the economic resource has to be controlled by the entity.

While the proposed definition might be regarded by some as a radical change, we note that assets have been defined as resources recognized in accounting in the 1980s (e.g.Anthony, 1983, Hendrickson, 1984). Nevertheless, the proposed definition is controversial in that it aims to separate certain well-entrenched attributes of an asset as understood by accountants and academics. One may also question if it is necessary to change an established notion of an asset to deal with exceptional situations such as that of an out-of-the-money option. A review of comment letters finds that several respondents do not agree or are concerned about the removal of the notion of uncertainty or probability from the definition of assets and liabilities. For example, Deutsche Bank expressed their concern as follows:

> We do not believe that the asset and liabilities definitions require a major redesign. These definitions have not created confusion or major problems for preparers or users in the past. We believe that a notion of probability should be retained either in the definition of an asset and a liability or their measurement. Ignoring probability completely will lead to an increase in the number of contingent assets and contingent liabilities being recognised compared to the current framework, which will not provide additional relevant information to the users of the accounts. (Deutsche Bank, AG, 2014)

A liability is defined as "a present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits" in the existing conceptual framework. The IASB proposes that a liability be defined as "a present obligation of an entity to transfer an economic resource as a result of past events." In this proposed definition, the IASB explains that a liability is an obligation rather than an outflow of economic resources as a result of the obligation. Analogous with the definition of an asset, the proposed definition of a liability focuses on the existence of an obligation rather than the outcome of the obligation.

Historically, liability definition has received less attention than asset definition (e.g., McGregor, 2013). There have also been inconsistencies in the recognition and measurement of liabilities within these standards (Barker & McGeachin, 2013), which points to the need for a consistent liability definition in the Conceptual Framework.[12] Hence, the proposed liability definition focuses on the operative term "obligation" and is broad enough to encompass a wide range of different types of liabilities.

Table 2 presents our survey respondents' views regarding some of IASB's proposed changes to the definitions of various financial statement elements. There is no significant difference across the respondent groups in the subsequent results we are reporting. We find that 56% of our respondents disagree with the proposed asset definition. Many of them raise questions as to how an asset could exist without future economic benefits. They also have difficulties with the proposed definition implying that an economic resource could exist without generating future cash flows. They find it easier to understand the need for expected future cash flows because expected future cash flows add value to the firm. A few of our respondents comment that having assets on the statement of financial position without future cash flows may overstate the statement of financial position and "worth" of the firm.

On the other hand, 62% of the respondents agree with the proposed liability definition compared with 38% who disagree. A *t*-test of statistical difference shows that the difference is statistically significant at the 0.01 level. Those respondents who agree with the proposed liability definition think that it is an improvement, being simpler and easier to understand. They agree that liabilities should result in outflows of economic resources and indicate that the definition of economic resources should be the same as that used in the asset definition. In contrast with the mixed views on the asset definition, there is a greater consensus on the liability definition. Respondents agree that the definition should focus on the existence of the obligation and not the expected

[12] This is probably because there are many different types of liabilities, and the IASB has attempted to define these liabilities separately in various standards. Examples are leases (IAS 17), pensions (IAS 19), provisions (IAS 37), and insurance contracts (IFRS 4).

Table 2
Financial statement elements.

Statement	Agree (%)	Disagree (%)	Mean	Median	H0: Average rating = 4 (p-value)
Asset definition: an asset is a present economic resource controlled by the entity as a result of past events.	46	55	3.86	4.00	0.3110
Liability definition: a liability is a present obligation of the entity to transfer an economic resource as a result of past events.	62	91	4.39	5.00	0.0027
Economic resource definition: an economic resource is a right, or other source of value that is capable of producing economic benefits.	91	9	5.31	6.00	0.0000
Control definition: an entity controls an economic resource if it has the present ability to direct the use of the economic resource so as to obtain the economic benefits that flow from it.	82	18	4.94	6.00	0.0000

Respondents were asked to indicate level of agreement with the above statements on a scale of 1 (strongly disagree) to 7 (strongly agree).
Column 1 presents the percent of respondents indicating agreement levels of 7 or 6 (strongly agree or agree).
Column 2 presents the percent of respondents indicating agreement levels of 2 or 1 (strongly disagree or disagree).
Columns 3 and 4 reports the mean and median rating, where higher vales correspond to higher agreement.
The last column reports the p-values of a t-test of the null hypothesis that the average rating for a given question is equal to 4 (neutral).

Table 3
Probability and recognition thresholds.

Statement	Agree (%)	Disagree (%)	Mean	Median	H0: Average rating = 4 (p-value)
Do you agree that the term "expected" is a probability-weighted outcome?	93	8	5.32	6.00	0.0000
Do you agree that it is appropriate to remove references to probability (e.g., "probable") from the recognition criteria?	52	48	4.07	4.00	0.5838
Do you agree an asset or liability should be recognized unless recognition leads to information that is not relevant or there is no measure that would result in a faithful representation of a resource or obligation despite additional disclosures?	71	30	4.57	5.00	0.0000
Do you agree that rights and obligations arising from executory contracts meet the proposed definitions of an asset and liability respectively?	75	25	4.82	6.00	0.0000
Do you agree that a constructive obligation implies that a present obligation exists?	87	13	5.10	6.00	0.0000

Respondents were asked to indicate level of agreement with the above statements on a scale of 1 (strongly disagree) to 7 (strongly agree).
Column 1 presents the percent of respondents indicating agreement levels of 7 or 6 (strongly agree or agree).
Column 2 presents the percent of respondents indicating agreement levels of 2 or 1 (strongly disagree or disagree).
Columns 3 and 4 reports the mean and median rating, where higher vales correspond to higher agreement.
The last column reports the p-values of a t-test of the null hypothesis that the average rating for a given question is equal to 4 (neutral).

outflow. Finally, they agree that the outflow of resources need not be expected or probable.[13]

Table 3 presents the results relating to probability and recognition thresholds. The majority of our survey respondents (93%) interpret "expected" as a probability-weighted outcome, and not meeting a probability threshold. This interpretation is consistent with standards such as IFRS 3 *Business Combinations*, which use the fair value concept in the probability-weighted expected value of future economic benefits for intangible assets and contingent considerations. Some feel that expected value should be a measurement issue, and not part of asset definition.

Our survey respondents are evenly split in their views on whether it is appropriate to remove references to probability (e.g., "probable") from the recognition criteria. Those who disagree with the removal feel that preparers should exercise judgment and record items that are probable. Recognizing low probability or even improbable items would make the financial statements less reliable, according to those respondents who disagree with this view. They are more comfortable with recognizing probable assets on the statement of financial position but disagree with the potential expansion in scope to include assets that are less than probable. Some feel that it is just a matter of clarifying what "probable" means, and this approach would not require the removal of the "probable" threshold from the recognition criteria. Disclosure of the facts underlying the preparers' judgment would be sufficient. They argue that removing the word "probable" leads to greater differences in interpretation and the problem is not resolved. The other half agree with the removal to allow for recognition of options and items that are less than probable. These results are unsurprising given that the removal of references to probability from the recognition criteria probably constitutes one of the more controversial changes proposed in the conceptual framework.

Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. The IASB explains that the net asset or net liability that arises under an enforceable executory contract is initially measured at zero because the right of one party is the obligation to the other party. A majority of our survey respondents (75%) agree that rights and obligations arising from executory contracts meet the proposed definitions of an asset and a liability, respectively. The result is statistically significant at the 0.01 level. Some respondents comment that a firm commitment under an executory contract meets the asset and liability definition, and it is consistent with the IASB preliminary view to recognize all assets/liabilities except when the cost does not justify the benefit, or faithful representation would not be made. Those who disagree argue that in an exchange contract, the liability cannot be recognized until the asset has been recognized. In an executory contract, the entity has not obtained control over the asset, the asset definition has not been met, and hence a liability cannot be recognized.

Finally, a majority of our respondents (87%) agree that a constructive obligation implies that a present obligation exists, and thus a liability should be recognized.[14] Most of them explain that recognizing the substance of business and economic realities is more important than the legal form. One example cited is that a liability exists when a firm

[13] Among those respondents who disagree with the revised liability definition, they feel that the term "economic resources" should be more clearly defined. Some consider that "settlement" is a better word than "transfer" as transfer of economic resources may not result in a liability. Questions were also raised as to how "deferred income" fits the liability definition.

[14] Many comment letters also indicate agreement with constructive obligations being liabilities (e.g., comment letters from Financial Reporting Council, CPA Australia, Ernest & Young, and Shell International B.V.).

Table 4
Other comprehensive income.

Statement	Agree (%)	Disagree (%)	Mean	Median	H0: Average rating = 4 (*p*-value)
Do you think it is necessary for other comprehensive income (OCI) items to be presented separately from net income?	75	25	4.71	5.00	0.0000
Do you agree that the IASB should continue to focus on the presentation guidance rather than develop a definition of OCI?	73	27	4.62	5.00	0.0000
Do you agree that all items of income and expense presented in OCI should be recycled into profit or loss?	66	34	4.45	5.00	0.0000

Respondents were asked to indicate level of agreement with the above statements on a scale of 1 (strongly disagree) to 7 (strongly agree).
Column 1 presents the percent of respondents indicating agreement levels of 7 or 6 (strongly agree or agree).
Column 2 presents the percent of respondents indicating agreement levels of 2 or 1 (strongly disagree or disagree).
Columns 3 and 4 reports the mean and median rating, where higher vales correspond to higher agreement.
The last column reports the *p*-values of a *t*-test of the null hypothesis that the average rating for a given question is equal to 4 (neutral).

considers its obligation to compensate customers for product failures even though such obligation may not be enforceable by the beneficiary. Furthermore, a constructive obligation includes a general duty or obligation where we cannot identify a specific beneficial party, such as an obligation to clean up environment damage.

5. Other comprehensive income

Presently, IAS 1 *Presentation of Financial Statements* requires total comprehensive income to be separated into two categories: profit or loss and other comprehensive income (OCI). The existing Conceptual Framework states that all items of income and expense that do not arise from transactions with owners in their capacity as owners (or "non-owner changes") are included in total comprehensive income. Hence, total comprehensive income is the change in the entity's recognized assets and liabilities during a period, other than transactions with owners and distributions to owners.

The reporting of net income and comprehensive income stems from a long standing debate between the all-inclusive view and the "current operating performance" concepts of reporting income. Under the all-inclusive view, income includes all revenues, expenses, gains, and losses. The main rationale underlying this concept is the notion that firm performance should include all changes in the net assets of a firm during the reporting period. On the other hand, certain nonrecurring or exceptional items are excluded from reported income under the "current operating performance" view. This is based on the belief that the inclusion of these items in the income statement may impair the ability of reported income to reflect the firm's long-term cash flow prospects (e.g., American Accounting Association's Financial Accounting Standards Committee, AAAFASC et al., 2010).

Profit or loss is frequently regarded as a more useful summary measure of performance than total comprehensive income. Financial statement users may ignore changes reported in OCI because they are not caused by operating flows from which long-term trends can be inferred. The interaction between profit or loss and OCI is unclear, especially the notion of recycling and when or which OCI items should be recycled. Finally, there is a lack of clarity on the roles of profit or loss and OCI when measuring and reporting an entity's performance. Consequently, some felt that the IASB should define what is meant by the term financial performance. In their view, a definition of financial performance would provide a better basis for distinguishing between items that should be recognized in profit or loss and items that should be recognized in OCI.

Academic research that has examined the usefulness of comprehensive income finds mixed results. For example, Dhaliwal, Subramanyam, and Trezevant (1999) find no evidence that comprehensive income is more strongly associated with firm stock returns or better predicts future cash flows than net income. The authors thus question the need and appropriateness of including OCI items in comprehensive income as well as the need to mandate uniform comprehensive income disclosures for all industries. Recent research shows opposing results. Biddle and Choi (2006) find that comprehensive income is a better performance measure than net income in explaining equity returns. However, they do not find that there is a single income measure that clearly dominates in terms of decision usefulness for the prediction of future operating income. Likewise, Chambers, Linsmeier, Shakespeare, and Sougiannis (2007); Jones and Smith (2011); and Mechelli and Cimini (2014) also report that OCI items are incrementally value-relevant despite the fact that OCI components are transitory in nature. The nature of OCI is not clearly understood and the IASB has not provided principles to determine the characteristics of items that are taken to OCI. In his comment letter, to the IASB, Robert Macve from the London School of Economics encouraged the IASB to reconsider the need for an OCI category:

> "The Discussion Paper could have usefully taken one step forward by raising the question of whether some of the items currently presented in OCI are indeed 'income' of any kind at all at the stage that they are currently recognized. For example, mismatches resulting from just one side of a hedge being remeasured are really just being 'parked' until the items can be fully matched and the overall results meaningfully included in profit and loss: the OCI is here basically just a 'suspense' account so it is surely misleading to call these items 'other comprehensive income' alongside others which more clearly are. Using a 'suspense account' would be a break with the 'clean surplus' approach that IASB has so far taken and would require admitting more balance sheet elements than just 'assets', 'liabilities, and 'equity' but – given that it is recognized that accounts cannot themselves measure the value of a business and therefore that they can never fully measure its 'comprehensive income' – labelling such items as 'suspense account' items would be a more straightforward and 'plain-speaking' approach than continuing to include them in OCI. And provided all elements are clearly displayed and explained users would remain free to reclassify them for their own purposes." (Macve, 2014)

Table 4 reports the results of various presentation and disclosure issues relating to OCI. We ask our survey respondents whether they agree that the IASB should continue to focus on the presentation guidance of OCI rather than develop an operational definition of OCI. The majority of our survey respondents (73%) agree with this view whereas 27% disagree. The difference is statistically significant at the 0.01 level. This is contrary to criticisms that the conceptual framework lacks a cohesive definition of OCI (Rees & Shane, 2012). We also ask them whether they think it is necessary for OCI items to be presented separately from net income. Seventy-five percent of our survey respondents think it is necessary to show net income and OCI as separate items, while 25% does not think it is necessary. Finally, we ask them whether all items of income and expense presented in OCI should be recycled into profit or loss. Of the survey respondents, 66% think that items of income and expense presented in OCI should be recycled into profit or loss. However, 34% of our survey respondents disagree with this view. The difference is statistically significant at the 0.01 level.

Of the five other comprehensive income items that are currently presented as separate items in the statement of comprehensive income,

Table 5
Should following items be reported as part of OCI or net income?

Item	Net income %	OCI %
Foreign exchange translation differences	30	70
Revaluation of fixed assets	24	76
Gains and losses on remeasuring available-for-sale financial assets	27	73
Remeasurements of defined benefit pension plans	36	64
Effective portion of gains and losses on hedging instruments that hedge variability in cash flows	40	60

we ask our survey respondents whether these items should continue to be reported as separate OCI items or should they be recorded in net income instead. As indicated in Table 5, the majority of our survey respondents vote for these items to be presented separately as OCI items. Specifically, revaluation of non-current assets receive the highest vote (76%) followed by gains and losses on remeasuring available-for-sale financial securities (73%), foreign exchange translation differences (70%), remeasurements of defined benefit pension plans (64%), and gains and losses on hedging instruments (60%).

6. Business model-based accounting

Business model-based accounting is the concept that management's intent with respect to the use, transfer, or disposition of assets or liabilities will influence the financial reporting of the entity.[15] If financial reporting is intended to capture the economic impact of events, transactions, and arrangements (i.e., economic phenomena), the key issue is whether management's intention or management plans will affect the economic phenomena and change the way as to how these transactions are to be accounted for (Leisenring, Linsemier, Schipper, & Trott, 2012).

There are several advantages and disadvantages as to whether the use of the entity's business model should be applied in financial reporting. The main rationale toward applying the business model concept in financial reporting appears to be that it provides relevant information by helping users of financial statements to assess the resources of the entity, claims against the entity, and how the entity's management and governing board have discharged their responsibilities in the use of the entity's resources. The main reservation toward the use of business model-based accounting is the concern that it reduces comparability. That is, having a business model approach could result in different classification, measurement or disclosure of the same economic phenomenon or transaction. The debate appears to be more so in the situation where identical financial assets could be accounted for differently depending on whether the entity will hold the asset for collection or for sale.[16]

If the concept of business model-based accounting is adopted, it will influence the appropriate choice of measurement bases. The IASB does not recommend measuring all assets and liabilities on the same basis as the IASB deems that a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements.[17] For some assets and liabilities (e.g., derivatives), a cost-based measurement may not be the best measurement basis to provide relevant information to financial statement users. Conversely, for other assets and liabilities (e.g., property, plant, and equipment), financial statement users may find cost-based information to be more relevant than information about its current market price. Consequently, the IASB believes that 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 the entity's future cash flows. Anecdotal evidence from the comment letters to the IASB suggest that preparers are generally in support of the business model approach. However, we noted concerns from investor groups about the lack of comparability that may arise from the business model approach. For example, the CFA Institute representing 108,000 members who hold the designation of Chartered Financial Analyst expressed strong dissension to the business model approach in their comment letter to the IASB:

> "Management intent can (and, in practice, often does) change over time and with changes in management. Most important, the value of an entity's assets and liabilities, along with the overall value of the organization, is neither based upon nor affected by management's intent. Accordingly, we do not support classification and measurement of assets and liabilities based upon management intent as its only effect is to obscure comparability." (CFA Institute, 2014)

Table 6 polls our survey respondents regarding their views as to whether a business model-driven accounting will change the way certain items are to be reported in the financial statements. The majority of our survey respondents (71%) agree that the reporting entity's business model should be used as a basis for determining whether assets and liabilities should be reported at fair values or historical cost. However, 29% disagree with this view. The result is statistically significant at the 0.01 level and indicates broad support among our respondents for the application of business model concept in financial reporting. Likewise, 77% of our respondents agree with the view that the business model concept should be used as the basis for determining whether fair value changes should be reported in net income or OCI. The remaining 23% of our respondents disagree with this view.

Measurement is a key aspect of financial reporting that has received little attention within the conceptual framework (Barth, 2007). A controversial issue in measurement is fair value accounting, which is inter-related with business model-based accounting. Two major contentious issues surrounding the use of fair value measurements versus cost-based measurements are the difficulties of obtaining current price estimates (i.e., the preparation cost involved in obtaining price estimates) for certain assets and liabilities, and the subjectivity of fair value estimates for assets and liabilities that are not actively traded in financial markets (Laux & Leuz, 2009). Fair value measurements are estimated through various means (see IFRS 13 *Fair Value Measurement*), and the information needed for inputs to those estimates may not be freely available. Costs incurred in the gathering, processing and verifying of fair value information vary across different types of assets and liabilities depending on the fair value estimation process in obtaining these estimates. Hence, the benefits to financial statement users in having a fair value measurement may become questionable as the subjectivity associated with the measurement increases (e.g., Riedl & Serafeim, 2011, Song, Thomas, & Yi, 2010).[18]

[15] Business model based accounting is used in existing IFRSs. For example, investment properties that are held to earn rentals or for capital appreciation or both (IAS 40 *Investment Property*), are distinguished from property, plant, and equipment that are held for use in the production or supply of goods or services or for administrative purposes (IAS 16 *Property*, *Plant and Equipment*).

[16] Business model based accounting provides firms with a choice about how to report the same economic phenomenon or transaction. Hence, it could lead to less neutral reporting if it encourages preparers to present the most favorable outcome. There is also the issue of whether the business model concept can be defined and applied on a consistent basis.

[17] In the revised conceptual framework, the IASB groups the various measurement bases into three main categories: cost-based measurements, fair value measurements, and other cash flow-based measurements.

[18] An example to illustrate the tradeoffs of this debate is investment properties. It is debatable whether the costs of obtaining current market prices for investment properties that are being developed or being held for a long time justify the benefits to financial statement users. A cost-based measurement would be less expensive and less subjective. However, the IASB's view is that current market prices for these assets, although subjective, will often provide more relevant information than cost-based information. Historical cost may have little or no relation to future cash flows from these investment properties, especially if the cash flows accruing from such investment properties are spread over many years.

Table 6
Business model-based accounting.

Statement	Agree (%)	Disagree (%)	Mean	Median	H0: Average rating = 4 (*p*-value)
Do you agree the reporting entity's business model should be used as a basis to determine whether assets and liabilities should be reported at fair values or historical cost?	71	29	4.74	5.00	0.0000
Do you agree that the reporting entity's business model should be used as a basis for determining whether fair value changes should be reported in net income or OCI?	77	23	4.74	5.00	0.0000

Respondents were asked to indicate level of agreement with the above statements on a scale of 1 (strongly disagree) to 7 (strongly agree).
Column 1 presents the percent of respondents indicating agreement levels of 7 or 6 (strongly agree or agree).
Column 2 presents the percent of respondents indicating agreement levels of 2 or 1 (strongly disagree or disagree).
Columns 3 and 4 reports the mean and median rating, where higher vales correspond to higher agreement.
The last column reports the *p*-values of a *t*-test of the null hypothesis that the average rating for a given question is equal to 4 (neutral).

Table 7
Should Following Items Be Reported At Fair Value or Historical Cost?

Item	Fair value %	Historical cost %
Assets and liabilities held for trading purposes	91	9
Assets and liabilities held for use within the business with other assets	22	78
Assets held for passive investment	54	46

Table 8
Should following items be reported as part of OCI or net income?

Item	Net income %	OCI %
Assets and liabilities held for trading purposes	30	70
Assets and liabilities held for use within the business with other assets	24	76
Assets held for passive investment	27	73

Table 7 reports the results on whether our respondents think fair value or historical cost should be used as the measurement basis for different categories of assets and liabilities differentiated by the type of use (i.e., trading, own use, passive investment). Ninety-one percent agree that assets and liabilities that are held for trading purposes (e.g., trading securities) should be reported at fair value. Nine percent think otherwise. For assets and liabilities held for use within the firm, 78% think that these items should be reported at historical cost whereas 22% feel that a fair value measurement will be more appropriate. Finally, for assets that are being held passively to generate interest or rental income, 54% of our survey respondents agree that fair value measurement will be the more relevant measure whereas 46% of our survey respondents choose historical cost as the more appropriate measurement basis.

Table 8 reports the results on whether our respondents think different categories of assets and liabilities differentiated by the type of use (i.e., trading, own use, passive investment) should be reported as OCI or as net income. Thirty percent agree that assets and liabilities that are held for trading purposes (e.g., trading securities) should be reported as part of net income. Seventy percent think that assets and liabilities that are held for trading purposes should be reported as part of OCI. For assets and liabilities held for use within the firm, 24% think that these items should be reported in net income whereas 76% feel that being reported as part of OCI would be more appropriate. Finally, for assets that are being held passively to generate interest or rental income, 27% of our survey respondents agree that being part of net income would be the more relevant location whereas 73% of our survey respondents chose OCI as the more appropriate location.

In our survey, we also ask our respondents which categories of assets and liabilities are best represented as fair value or historical cost. We separate financial assets into two categories – actively traded markets and illiquid markets – to take into account the issues as described above. We use five different categories for non-financial assets – investment properties, plant, property and equipment, intangible assets, inventories, and biological assets. Finally, we separate liabilities into three categories – financial liabilities for which the fair value changes arise due to own credit risk, financial liabilities for fair value changes other than own credit risk, and non-financial liabilities.

Table 9 reports the results of these issues relating to the measurement bases and disclosures for the ten different categories of assets and liabilities. Not surprisingly, we find that an overwhelming number of our survey respondents (96%) agree that fair value is more appropriate than historical cost when measuring financial assets that are actively

Table 9
Measurement bases and disclosures.

Item	Fair value %	Historical cost %	Recognized %	Disclosed %	Net income %	OCI %
Financial assets in actively traded markets	96	4	78	22	63	37
Financial assets in illiquid markets	37	63	34	66	35	65
Investment properties	66	34	55	45	40	60
Plant, property, and equipment (PPE)	21	79	37	63	37	63
Intangible assets	41	59	39	61	35	65
Inventories	40	60	48	52	52	48
Biological assets	48	52	38	62	43	57
Financial liabilities (change due to own credit risk)	70	30	56	46	49	51
Financial liabilities (change not due to own credit risk)	66	34	49	51	45	55
Non-financial liabilities	28	72	31	69	41	59

Respondents were asked to indicate whether they view the above items should be reported as fair value/historical cost, whether fair values should be recognized or disclosed and whether fair value changes should be reported as net income or OCI.

traded. Four percent of our survey respondents think otherwise. On the other hand, for financial assets that are not actively traded, 63% of our survey respondents view historical cost as the more appropriate measurement basis compared with 37% who choose fair value over historical cost for such assets.

With regard to non-financial assets, we find that there are differing views based on the nature of non-financial assets. Among the five categories of non-financial assets, fair valuing investment properties receive the highest percentage of votes (66%), with only 34% voting historical cost as the preferred measurement basis for investment properties. On the other hand, historical cost measurement basis is deemed as the more appropriate measurement basis over fair value for plant, property, and equipment (79%); intangible assets (59%); and inventories (60%). Our survey respondents are evenly split over whether biological assets should be accounted for using historical cost or fair value. Fifty-two percent voted historical cost for biological assets, whereas 48% vote fair value measurement basis.

Finally, with regard to liabilities, the majority of our respondents consider fair value to be more appropriate than historical cost when remeasuring financial liabilities due to changes in the entity's own credit risk (70%) as well as fair value changes due to changes other than the entity's own credit risk (66%). By contrast, 72% vote historical cost as the most appropriate measurement basis for non-financial liabilities. Overall, our survey respondents have a stronger preference to fair value financial assets and liabilities than non-financial assets and liabilities.

7. Conclusion

In this paper, we provide field evidence on chartered accountants' perspectives of the proposed changes to the conceptual framework as inputs to the IASB. Our results are mixed on whether our survey respondents agree with the new definitions. We find that our survey respondents are more resistant to changes in well-entrenched concepts such as the definition of an asset. They have formed their interpretations of terms such as "economic benefits" and "obligations" over time in practice. Their responses indicate a mental model that is shaped by the notion of assets as being bundles of future economic benefits. They disagree with substituting economic benefits with economic resources at least for the asset definition but do not disagree with the liability definition. The IASB may need to engage in further deliberation and education to obtain the buy-in required for a successful implementation in this aspect.

Despite criticisms of the IASB's failure to arrive at a definition of OCI, our respondents do not see this as a flaw. They do not require the IASB to define the OCI, and they agree that the focus should be on the presentation guidance. In part, this may be due to the acceptance of OCI as a prescribed rather than a defined category. In terms of presentation, our respondents still uphold the notion of having OCI separately presented from net income. At the same time, they want OCI items to be recycled to the income statement. This view indicates that they see the income statement as being the primary financial statement on performance.

While there have been much debate over the use of fair value versus historical cost, there is consensus among our respondents that the use of fair values are appropriate for actively traded financial assets, financial liabilities, and investment properties. On the other hand, they view historical cost as a more suitable measurement basis for inactively traded financial assets, fixed assets, intangible assets, and inventories because fair values are more subjective in such cases. The area of contention where they are divided is biological assets. The fact that our respondents choose historical cost over fair value for certain asset classes where the measurement inputs are uncertain do not necessarily mean that they shy away from subjective measurements. Finally, most of them agree that the reporting entity's business model should be used as a basis to determine whether assets and liabilities should be reported at fair value or historical cost, and whether fair value changes should be reported in net income or OCI.

Acknowledgments

We wish to thank Lisa Goh, Huoshu Peng, and conference participants at the 2014 Singapore Accountancy Convention, the 2015 Accounting Theory and Practice conference, and the 2016 JCAE Symposium for helpful comments and suggestions. We greatly appreciate the School of Accountancy Research Center (SOAR) at Singapore Management University for financial support and the Institute of Singapore Chartered Accountants (ISCA) for their assistance with the data collection. All errors are our own.

Appendix 1. Survey instrument

1.1. Survey questions

Question 1

Existing definition: "*An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.*"

Proposed definition: "*An asset is a present economic resource controlled by the entity as a result of past events.*"

Do you agree that the proposed definition of an "asset" is an improvement over its existing definition?

Question 2

Existing definition: "*A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.*"

Proposed definition: "*A liability is a present obligation of the entity to transfer an economic resource as a result of past events.*"

Do you agree that the proposed definition of a "liability" is an improvement over its existing definition?

Question 3

The proposed definitions of "asset" and "liability" include the term "economic resource."

Proposed definition of "economic resource": "*An economic resource is a right, or other source of value, that is capable of producing economic benefits.*"

Do you agree with the proposed definition of an "economic resource"?

Question 4

The IASB proposes to include a definition of control in the conceptual framework.

Proposed definition of "control": "*An entity controls an economic resource if it has the present ability to direct the use of the economic resource so as to obtain the economic benefits that flow from it.*"

Do you agree that the proposed definition of control implies that economic benefits always have to flow from the controlled economic resource in all circumstances?

Question 5

The existing definitions of an asset and a liability refer to "expected" flows of economic benefits to or from an entity.

Do you agree that the term "expected" is a probability-weighted outcome?

Question 6

Please indicate the quantitative probability threshold that you associate with each of the following terms that are used in accounting standards:

Term	At Least 50% Probability of Occurring	At Least 75% Probability of Occurring	At Least 90% Probability of Occurring	At Least 95% Probability of Occurring	Other Probabilities	No Probability Threshold
"Virtually certain"						
"Probable"						
"More likely than not"						

If you indicate "other probabilities," please provide the specific thresholds:

Question 7

The IASB proposes to remove references to probability (e.g., "probable") in the recognition criteria. Their rationale is that some items (e.g., options) may have a low probability of an inflow or outflow at reporting date but should be recognized in the financial statements.

Do you agree that it is appropriate to remove references to probability (e.g., "probable") from the recognition criteria?

Question 8

In the existing Framework, an asset or liability is recognized if the "probable" and "reliability" criteria are met.

In the Discussion Paper, an asset or liability should be recognized unless recognition leads to information that is not relevant or no measure despite disclosures would result in a faithful representation of a resource or obligation.

It is likely that more assets and liabilities will be recognized if the preliminary views in the Discussion Paper are adopted.

Do you agree with the preliminary views of the IASB?

Question 9

Outstanding rights and obligations arise from executory contracts (for example, unperformed purchase or sales contracts).

The proposed definitions of an asset and a liability are shown below for your reference.

Proposed definition of an asset: "*An asset is a present economic resource controlled by the entity as a result of past events*."

Proposed definition of a liability: "*A liability is a present obligation of the entity to transfer an economic resource as a result of past events*."

Do you agree that rights and obligations arising from executory contracts meet the proposed definitions of an asset and liability respectively?

Question 10

The IASB is reviewing the meaning of present obligation in the conceptual framework project. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* identifies a liability as arising from either a legal or constructive obligation to other parties. A constructive obligation arises when an entity has indicated to other parties that it will accept certain responsibilities, resulting in a valid expectation by these other parties that the entity will discharge its responsibilities.

Do you agree that a constructive obligation implies that a present obligation exists?

Question 11

Do you think it is necessary for other comprehensive income (OCI) items to be presented separately from net income?

Question 12

Do you agree that the IASB should continue to focus on the presentation guidance rather than develop a definition of OCI?

Question 13

Do you agree that all items of income and expense presented in OCI should be recycled into profit or loss?

Question 14

A present obligation must have arisen as a result of past events. In practice, it is unclear whether past events are sufficient to create a present obligation to transfer an economic resource if such a transfer remains conditional on future events that have not occurred, or on further actions that the entity has not taken, by the reporting date.

These difficulties suggest that the existing Conceptual Framework may not be sufficiently clear in this area and that further guidance is required. Hence, we are soliciting your views as to the appropriate accounting treatment with respect to the following hypothetical example.

Banks have to contribute 1% of its net profit in the immediate preceding year (2012) into a government administered "lifeboat" fund in the current year (2013). A bank does not have an obligation to make the contribution if it ceases to operate or face going concern problems in the current year (2013).

If a bank earns net profit of $100 million in 2012, does a present liability (1% x $100 million = $1 million) arise for the bank as at the reporting year end 31 December 2012?

You may **disregard** existing accounting standards or convention in formulating your assessment:

Accounting Treatment	Your Assessment (tick only one)
View 1: No liability exists on 31 December 2012 because (i) conditions have not been met on 31 December 2012; and (ii) the obligation must be strictly unconditional. View 2: A liability of $1 million exists on 31 December 2012 because (i) a present obligation has arisen from a past event (the bank reported net income of $100 million in 2012); and (ii) the obligation is practically unconditional (going concern can be assumed in the light of the bank's profitability). View 3: A liability of $1 million exists on 31 December 2012 because (i) a present obligation has arisen from a past event (the earning of a profit in 2012); and (ii) it is not necessary for the obligation to be strictly or practically unconditional.	

Question 15

Currently, the following items are presented separately in the income statement as OCI items.

Do you think the following items should continue to be reported as separate OCI items or be recorded in net income instead? You may disregard existing accounting standards or convention in formulating your assessment. Please tick either net income or other comprehensive income for each item below.

Foreign exchange translation differences on net investments:

Revaluation of fixed assets:

Gains and losses on remeasuring available-for-sale financial assets:

Remeasurements of defined benefit pension plans:

Effective portion of gains and losses on hedging instruments that hedge variability in cash flows:

Net income
Other comprehensive income

Question 16

In your opinion, would financial statement readers be better informed if the following items are recorded in the financial statements at fair value or historical cost? (Tick only one for each item).

Item	Fair Value	Historical Cost
Financial assets in actively traded markets		
Financial assets in illiquid markets		
Non-financial assets		
- Investment properties		
- Plant, property, and equipment (PPE)		
- Intangible assets		
- Inventories		
- Biological assets		
Financial liabilities (change due to own credit risk)		
Financial liabilities (change not due to own credit risk)		
Non-financial liabilities		

Question 17

Assuming that fair value information is required to be reported in the financial statements, would financial statement readers be better informed if changes in their fair values are recognized in the financial statements or disclosed in the footnotes? (Tick only one for each item):

Item	Recognized in the Financial Statements	Disclosed in the Footnotes
Financial assets in actively traded markets		
Financial assets in illiquid markets		
Non-financial assets		
- Investment properties		
- Plant, property, and equipment (PPE)		
- Intangible assets		
- Inventories		
Biological assets		
Financial liabilities (change due to own credit risk)		
Financial liabilities (change not due to own credit risk)		
Non-financial liabilities		

Question 18

Assuming that the following items are measured at fair value, in your opinion, would financial statement readers be better informed if changes in their fair values are included in net income or OCI? (Tick only one for each item):

Item	Net Income	OCI
Financial assets in actively traded markets		
Financial assets in illiquid markets		
Non-financial assets		
- Investment properties		
- Plant, property, and equipment (PPE)		
- Intangible assets		
- Inventories		
- Biological assets		
Financial liabilities (change due to own credit risk)		
Financial liabilities (change not due to own credit risk)		
Non-financial liabilities		

Question 19

Do you agree the reporting entity's business model should be used as a basis to determine whether assets and liabilities should be reported at fair values or historical cost?

Question 20

Assume that the business model concept is used in financial reporting. In your opinion, should the following items be reported at fair value or historical cost? (Tick only one for each item.)

Item	Reported at Fair Value	Reported at Historical Cost
Assets and liabilities held for trading purposes (e.g., trading securities)		
Assets and liabilities held for use within the business with other assets (e.g., PPE)		
Assets held for passive investment (e.g., properties held for rental income)		

Question 21

Do you agree that the reporting entity's business model should be used as a basis for determining whether fair value changes should be reported in net income or OCI?

Question 22

Assume that the business model concept is used in financial reporting. In your opinion, do you think the following fair value changes should be recognized as net income or other comprehensive income (OCI)? (Tick only one for each item.)

Changes in their fair values are recorded:

Item	**Net Income**	**Other Comprehensive Income (OCI)**
Assets and liabilities held for trading purposes (e.g., trading securities)		
Assets and liabilities held for use within the business with other assets (e.g., PPE)		
Assets held for passive investment (e.g., properties held for rental income)		

References

Allen, A., & Ramanna, K. (2013). Towards an understanding of the role of standard setters in standard setting. *Journal of Accounting and Economics*, *55*(1), 66–90.

American Accounting Association's Financial Accounting Standards Committee (AAAFASC), Ohlson, J. A., Penman, S., Bloomfield, R., Christensen, T. E., Colson, R., ... Watts, R. L. (2010d). A framework for financial reporting standards: Issues and a suggested model. *Accounting Horizons*, *24*(3), 471–485.

Anthony, R. N. (1983). Tell It Like It Was. *A conceptual framework for financial accounting.* Richard D Irwin (September 1983).

Barker, R., & McGeachin, A. (2013). Why is there inconsistency in accounting for liabilities in IFRS? An analysis of recognition, measurement, estimation and conservatism. *Accounting and Business Research*, *43*(6), 579–604.

Barniv, R., & Fetyko, D. (1997). Attitudes of CPAs and financial executives towards harmonization of international accounting standards: An analytical and empirical examination. *Journal of International Accounting, Auditing and Taxation*, *6*(2), 149–169.

Barth, M. E. (2007). *Standard-setting measurement issues and the relevance of research.* Accounting and Business Research, Special Issue: International Accounting Policy Forum, 7–15.

Baxter, W. T. (1996). Future events—A conceptual study of their significance for recognition and measurement: A review article. *Accounting and Business Research*, *26*(2), 171–176.

Biddle, G. C., & Choi, J. (2006). Is comprehensive income useful? *Journal of Contemporary Accounting and Economics*, *2*(1), 1–32.

Bloom, R., Heymann, H. G., Fuglister, J., & Collins, M. (1994). *The schism in accounting.* U.S.: Greenwood Publishing Group.

Boyle, P. (2010). Discussion of 'How do conceptual frameworks contribute to the quality of corporate reporting regulation?'. *Accounting and Business Research*, *40*(3), 301–302.

Camfferman, K., & Zeff, S. A. (2007). *Financial reporting and global capital markets: A history of the international accounting standards committee 1973–2000.* UK: Oxford GBR., Oxford University Press.

CFA Institute (2014). Comment letter to the IASB on the discussion paper on the conceptual framework. www.iasb.org

Chambers, D., Linsmeier, T. J., Shakespeare, C., & Sougiannis, T. (2007). An evaluation of SFAS no.130 comprehensive income disclosures. *Review of Accounting Studies*, *12*(4), 557–593.

Christensen, J. (2010). Conceptual frameworks of accounting from an information perspective. *Accounting and Business Research*, *40*(3), 287–299.

Cramer, J. J., & Neyhart, C. A. (1976). *Conceptual framework for financial accounting and reporting: Present and future.* the Pennsylvania State University: Center for Research, College of Business Administration.

Deutsche Bank, AG (2014). Comment letter to the IASB on the discussion paper on the conceptual framework. www.iasb.org

Dhaliwal, D., Subramanyam, K. R., & Trezevant, R. (1999). Is comprehensive income superior to net income as a measure of firm performance? *Journal of Accounting and Economics*, *26*(1–3), 43–67.

Dopuch, N., & Sunder, S. (1980). FASB's statements on objectives and elements of financial accounting: A review. *The Accounting Review*, *55*(1), 1–21.

Gassen, J., & Schwedler, K. (2010). The decision usefulness of financial accounting measurement concepts: Evidence from an online survey of professional investors and their advisors. *The European Accounting Review*, *19*(3), 495–509.

Glaum, M., & Mandler, U. (1997). German managers' attitudes towards Anglo-American accounting: Results from an empirical study on global accounting harmonization. *The International Journal of Accounting*, *32*(4), 463–485.

Gray, S. J., Shaw, J. C., & McSweeney, L. B. (1981). Accounting standards and multinational corporations. *Journal of International Business Studies*, *12*(1), 121–136.

Hackenbrack, K., & Nelson, M. W. (1996). Auditors' incentives and their application of financial accounting standards. *The Accounting Review*, *71*(1), 43–59.

Harding, N. (1997). User involvement in the standard setting process: A research note on the congruence of accountant and user perceptions of decision usefulness. *Accounting, Organizations and Society*, *18*(7/8), 765–781.

Hendrickson, H. S. (1984). Book reviews. Robert N Anthony. Tell it like it was: A conceptual framework for financial accounting. *The Accounting Review*, *59*(3), 528–529.

Hines, R. D. (1989). Financial accounting knowledge, conceptual framework projects and the social construction of the accounting profession. *Accounting, Auditing & Accountability Journal*, *2*(2), 72–92.

International Accounting Standards Board (IASB) (2013). A review of the conceptual framework for financial reporting. *Discussion Paper DP/2013/1*. London, UK: IFRS Foundation.

International Accounting Standards Board (IASB) (2015). Conceptual framework for financial reporting. *Exposure Draft ED/2015/3*. London, UK: IFRS Foundation.

Jones, D. A., & Smith, K. J. (2011). Comparing the value relevance, predictive value, and persistence of other comprehensive income and special items. *The Accounting Review*, *86*(6), 2047–2073.

Knoema (2015). GDP per capita ranking 2015. www.knoema.com

Laux, C., & Leuz, C. (2009). The crisis of fair-value accounting: Making sense of the recent debate. *Accounting, Organizations and Society*, *34*(6–7), 826–834.

Leisenring, J., Linsemier, T., Schipper, K., & Trott, E. (2012). Business-model (intent)-based accounting. *Accounting and Business Research*, *42*(3), 329–344.

Macve, R.H. (1981). A conceptual framework for financial accounting and reporting: The possibilities for an agreed structure. Reprinted in Macve, R.H. 1997. A Conceptual Framework for Financial Accounting and Reporting, New York, NY & London: Garland.

Macve, R. (2010). Conceptual frameworks of accounting: Some brief reflections on theory and practice. *Accounting and Business Research*, *40*(3), 303–308.

Macve, R. (2014). Comment letter to the IASB on the discussion paper on the conceptual framework. www.iasb.org

McEnroe, J. E., & Sullivan, Mark (2006). Individual investors' attitudes towards listing requirements for foreign entities on U.S. stock exchanges and the promulgation of international accounting standards. *Journal of International Accounting, Auditing and Taxation*, *15*, 215–225.

McEnroe, J. E., & Sullivan, Mark (2011). Individual investors' attitudes toward the acceptance of international financial reporting standards in the United States. *Journal of International Accounting, Auditing and Taxation*, *20*, 20–31.

McGregor, W. J. (2013). Liabilities—The neglected element: A conceptual analysis of the financial reporting of liabilities. *AASB Occasional Paper No. 1*. Australian Government. Australian Accounting Standards Board (October 2013).

McGregor, W. J., & McCahey, J. (2013). Commentaries on financial reporting #1. The conceptual framework: Cornerstone of high quality financial reporting. *IASplus paper* (http://www.iasplus.com/en/publications/research/warren-mcgregor-the-conceptualframework-cornerstone-of-high-quality-financial-reporting).

McLeay, S., Ordelheide, D., & Young, S. (2000). Constituent lobbying and its impact on the development of financial reporting regulations: Evidence from Germany. *Accounting, Organizations and Society*, *25*(1), 79–98.

Mechelli, A., & Cimini, R. (2014). Is comprehensive income value relevant and does location matter? A European study. *Accounting in Europe*, *11*(1), 59–87.

Peasnell, K. V. (1982). The function of a conceptual framework for corporate financial reporting. *Accounting and Business Research*, *12*(48), 243–256.

Rees, L. L., & Shane, P. B. (2012). Academic research and standard-setting: The case of other comprehensive income. *Accounting Horizons*, *26*(4), 789–815.

Riedl, E. J., & Serafeim, G. (2011). Information risk and fair value: An examination of equity betas and bid-ask spreads. *Journal of Accounting Research*, *49*(4), 1083–1122.

Schwartz, B. N., & Reckers, P. M. J. (1987). User attitudes toward selected professional developments. *Accounting Horizons*, *1*(2), 43–47.

Song, C. J., Thomas, W. B., & Yi, H. (2010). Value relevance of FAS no. 157 fair value hierarchy information and the impact of corporate governance mechanisms. *The Accounting Review*, *85*(4), 1375–1410.

Walker, R. G., & Jones, S. (2012). Reporting on infrastructure in Australia: Practices and management preferences. *Abacus*, *48*(3), 387–413.

Yeandle, M., & Mainelli, M. (2015). *The global financial centres index 17*. Z/Yen Group and Qatar Financial Centre Authority.

Zeff, S. (1999). The evolution of the conceptual framework for business enterprises in the United States. *The Accounting Historians Journal*, *26*(2), 89–131.

Zeff, S. (2013). The objectives of financial reporting: A historical survey and analysis. *Accounting and Business Research*, *43*(4), 262–327.