Project	**Conceptual Framework – Objectives and Qualitative Characteristics**
Topic	**Comments of the Pre-ballot Draft**

Purpose of this Paper

1. This paper describes comments and questions of board members about the pre-ballot draft of chapters 1 and 3 of the conceptual framework chapters—*Objectives of financial reporting* and *Qualitative characteristics of, and constraints on, useful financial information*. This paper does not list all comments we received. It includes only those that board members specifically wanted to discuss at a public meeting and those that we believe raise issues that would require a board decision to resolve or that would be particularly difficult to resolve in the drafting process.

2. The purpose of this meeting is resolve the issues raised by board members so that we can prepare a draft for outside reviewers and, after addressing their comments, a ballot draft.

3. One general comment made by several board members was that the term *qualitative characteristics* should not be replaced with *qualities* as the staff had suggested. No board member said that the term *qualities* was an improvement. We accept that comment. Therefore, this paper refers to qualitative characteristics instead of qualities.

Issue 1: Effective Date and Amendments

Board Members' Concerns

4. What is the effective date of the framework? Which portions of the existing framework will be amended or deleted?

Staff response

5. The existing IASB Framework is not in itself authoritative. Paragraph 2 states the following:

> This *Framework* is not an International Accounting Standard and does not define standards for any particular measurement or disclosure issue. Nothing in this *Framework* overrides any specific International Accounting Standard.

6. Paragraph 5 of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* states that International Financial Reporting Standards (IFRSs)…comprise:

   (a) International Financial Reporting Standards

   (b) International Accounting Standards

   (c) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

7. That list does not include the IASB *Framework*. Paragraph 10 of IAS 8 uses the words *relevant* and *reliable* but does not refer to the *Framework*. IAS 8 explains the word reliable without referring to the *Framework* at all.

8. In fact, paragraph 11 includes the only reference in IAS 8 to the *Framework.* It states that 'management shall refer to, and consider the applicability of, the

following sources in descending order…' The second item in that list is 'the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework*'.

9. The portions of the Framework that are the subject of this paper will not change the definitions, recognition criteria and measurement concepts referred to in paragraph 11 of IAS 8. Thus, there is no reason to change paragraph 11 of IAS 8 or to include an effective date for anyone other than the board itself in the new chapters of the *Framework*.

10. The Board will probably want to replace the explanation of 'reliable' in paragraph 10 of IAS 8 with 'faithful representation', but that is an IAS 8 issue. It is not automatically affected by the issuance of new chapters to the *Framework*, because that paragraph does not refer to the *Framework*. The board decided at an earlier meeting that IAS 8 will be amended as a part of the annual improvements process. However, that amendment is not part of the purpose of the Framework project.

11. There are many possible ways to structure the Framework. The boards' earlier decision to use a chapter format with a basis for conclusions has guided our drafting. The two chapters that will be the first to become final are the Objectives chapter and the Qualitative Characteristics chapter, which are chapters 1 and 3. The Objectives chapter will replace paragraphs 12-23 of the existing IASB Framework, and the Qualitative Characteristics chapter will replace paragraphs 24-46 of the existing IASB Framework. We recommend that those paragraphs of the existing Framework be deleted and replaced with a reference to the new chapters.

Questions for the board

Questions
1. Should the Framework itself (as opposed to IAS 8) have an effective date for the board? If so, what should that date be? 2. Should paragraphs 12-23 and 24-46 of the existing Framework be deleted and replaced with references to the new chapters? If not, what should be done?

Issue 2: Structure of the Introduction

Board Members' Concerns

12. Some board members are concerned about the structure of the introduction and the way the status of the Framework is described.

Staff response

13. We have attempted to develop an introduction with two purposes in mind. First, it would be the same for both boards. Second, it would discuss the process used to develop the Framework so that it is not necessary to repeat that information in each chapter.

14. Given the concerns expressed by IASB members, we now recommend that each board develop its own introduction to meet its own needs. We recommend that the IASB retain its introduction with the following two modifications:

    a. Delete the list of users in paragraph 9 because the discussion of users is now in paragraphs OB6 to OB9 in Chapter 1.

    b. Add the section on due process that is in paragraphs 10-12 of the draft introduction in order to avoid repeating it in each chapter.

Questions for the board

Questions
3. Should the existing Introduction be retained, but with the list of users deleted from paragraph 9, and with the addition of the section on due process in paragraphs 10-12 of the draft introduction? If not, what should be done?

Issue 3: Terminology

Board Members' Concerns

15. In several places the pre-ballot draft, like the exposure drafts, uses the phrase *standard setters should…*and similar phraseology. Why is the term *standard setters* used instead of *the board* or *the boards*? Does this Framework apply to other standard setters?

Staff response

16. This framework only applies to other standard setters if they choose to adopt it. Although the IASB and FASB are both adopting it, they are doing so separately. Finally, portions of each board's original framework remain in place. Those portions refer to *the Board* (singular). Therefore, we recommend using the term *Board* (singular) in the new chapters.

Questions for the board

Questions
4. Should the terms *standard setters* and *boards* be replaced with *board* unless the context clearly indicates an observation that affects more than one board? If not, what should be done?

Issue 3a: Statement of the Objective—General

Board Members' Concerns

17. The following change to paragraph OB2 was suggested:

The information provided in general purpose financial reports is influenced primarily by the needs of investors, lenders, and other creditors, <u>which include information to make forecasts of future cash flows, evaluate the sustainability of a reporting entity's business model, and assess its cash-generating ability</u>.

Staff response

18. If the objective of financial reporting is changed as suggested in paragraph 12 of this paper, a user could legitimately ask why cash flow projections are not required. The board's previous framework has not discussed providing information useful in projecting cash flows as an objective. The objective was to provide information useful in assessing prospects for future cash flows.

Questions for the board

Questions
5. Should the objective to financial reporting refer to *users' needs project cash flows* instead of *users' needs to assess cash flow prospects*?

Issue 3b: Statement of the Objective—General

Board Members' Concerns

19. The following are comments about paragraph BC1.24:

    a. Explain how a single objective of financial reporting for all types of entities is consistent with separate standards for SMEs

    b. Explain more why cost constraints might cause differences in reporting

Staff response

20. The basis for conclusions of *International Financial Reporting Standard for Small and Medium Size Entities* (*IRFS for SMEs*) states that the circumstances for SMEs can be different for the following reasons:

    a. The types of user of the entity's financial statements and their information needs;

    b. How the financial statements are used by those users;

    c. The depth and breadth of accounting expertise available to the entity; and

    d. SMEs' ability to bear the costs of following the same standards as the larger, publicly-accountable entities.

21. The discussion of different users' needs and cost-benefit considerations includes the following (which is paraphrased from the basis for conclusions of *IFRS for SMEs*):

> Users of financial statements of SMEs may have less interest in some information than users of other entities' financial statements and many need some information not ordinarily presented in financial statements of other entities. For example, users of financial statements of SMEs may have greater interest in short-term cash flows, liquidity, and interest coverage than in longer-term cash flows, profit or loss, and value.
>
> Concepts for recognizing and measuring assets, liabilities, income, and expenses suggested that a single set of accounting standards should be suitable for all entities, but there may be disclosure differences. However, differences in the types and needs of users as well as limitations in, and the cost of, the accounting expertise available to SMEs suggested that separate requirements for SMEs are appropriate.

22. The statement in the basis for conclusions of *IFRS for SMEs* that users of SMEs financial statements may have different needs than users of other entities' financial statements does not seem to be consistent with the statement in paragraph BC1.24 of the Objectives chapter which states "external users of financial reporting have the same needs, irrespective of the type of entities they invest in".

Questions for the board

Questions
6. Do you agree that users of SMEs financial statements have different needs than users of other entities' financial statements? If so, how can paragraph BC1.24, which states that "external users of financial reporting have the same needs irrespective of the type of entities they invest in," be amended to be consistent with IFRS for SMEs?

Issue 4: Statement of the Objective—Dilution

Board Members' Concerns

23. The following is a comment on OB10:

> The statement that users are interested in assessing the entity's ability to generate net cash inflows seems to be too narrow. This paragraph should also mention *dilution*, which does not affect the entity's cash flows but does affect investors' cash flows, and *risk*. Could the reference to cash flows be qualified by also referring to value creation or something similar?

Staff response

24. The idea of risk already seems to be covered by referring to "prospects for future cash flows", though that could be made more explicit. However, the idea of dilution does not seem to be present.

Questions for the board

Questions
7. Should references to dilution or risk or both be added? If so, what changes will need to be made to other sections of the objectives chapter and other chapters to be consistent?

Issue 5: Stewardship

Paragraphs from Pre-ballot Draft

25. The most specific discussion of the stewardship objective is in paragraphs OB13 and OB 14 of the pre-ballot draft. That same objective is also referred to in several

other paragraphs, and board members suggested adding references in paragraphs that do not now include them.

OB13. Management is accountable for the custody and safekeeping of the entity's economic resources and for their efficient and profitable use. Management's responsibilities include, to the extent possible, protecting the entity's economic resources from unfavorable effects of economic factors such as price changes and technological and social changes. Management also is accountable for ensuring that the entity complies with applicable laws, regulations, and contractual provisions.

OB14. Management's performance in discharging its responsibilities, often referred to as stewardship responsibilities, is particularly important to existing equity investors when making decisions about whether to replace or reappoint management, how to compensate management, and how to vote on shareholder proposals about management's policies and other matters. Because management's performance in discharging its stewardship responsibilities usually affects an entity's ability to generate net cash inflows, management's performance is also of interest to potential investors, lenders and other creditors.

Board Members' Concerns

26. Board members made the following points about the discussion of stewardship:

a. Paragraph OB2. Isn't the notion of 'determining whether the directors and management have made efficient and profitable use of the resources provided' implicit in making decisions about providing resources to the entity? Is it necessary to add that to the objective?

b. Paragraph OB6(c). This paragraph should be clear about whether 'other creditors' of the entity (employees, suppliers, and customers) need to be considered in evaluating the stewardship objective.

c. Paragraph OB13. The statement 'Management's responsibilities include, to the extent possible, protecting the entity's economic resources from unfavorable effects of economic factors such as price changes and technological and social changes,' underscores the importance of why fair value information about assets and liabilities is essential information for an investor. To the extent management holds assets that have declined substantially in value, the consequences can be a sharp and sudden decline in available liquidity to the reporting entity.

d. Paragraph OB18. While the statement that 'users also assess the effectiveness with which management has discharged its stewardship responsibilities by comparing their expectations with actual results' is true, it does not seem to be directly relevant to the discussion of an entity's economic resources and claims.

e. Paragraph QC39. In considering materiality, will a standard setter, for stewardship reasons, require an entity to disclose loans for individual directors. This disclosure may not be material in terms of net worth or income.

f. Paragraph QC42. Add the following at the end: '…relating to both their investment allocations and governance decisions'. Tie to both types of user decisions

g. General comment. Is the stewardship/management's accountability to users aspect of the objective applicable to the qualitative characteristics or constraints of financial reporting information? Or will the qualitative characteristics and constraints be applied differently, because of the management's accountability aspect?

Staff response

27. Most of the comments on stewardship indicate that the discussion of the stewardship objective seems to be incomplete and its implications are not clear. One board member suggests that the stewardship objective is implicit in the objective related to decisions about providing resources. Another board member questions the implication with regard to measurement.

28. The stewardship objective is not referred to in the chapter on qualitative characteristics. The primary qualitative characteristics in general would seem to apply in any context (even those that have nothing to do with financial reporting) and therefore, may be applicable to stewardship. However, there are references to cash flows and predictions about the future, but there is no tie to stewardship.

29. The most recent draft of the measurement chapter states as an assumption that the implications of the stewardship objective for measurement decision are no different from the implications of the resource allocation objective. The few board members who have commented so far have not commented on that statement.

30. We have not discussed elements and definitions recently, but no past discussion has referred to a stewardship objective. The work the staff has done so far in preparing for the next discussion depends on assessment of future cash flow prospects and does not refer to stewardship. Nor do we understand how the stewardship objective should affect that phase of the project.

31. Neither the existing *IASB Framework* nor the existing *FASB Concepts Statements* provide any help. Neither makes more than a passing reference to the stewardship objective. That raises the question of why stewardship should be mentioned as an objective if it has little or no effect on other aspects of the *Framework*.

32. Finally, the title of this chapter refers to the Objective (singular) of financial reporting. Is there only one objective or are there two?

Questions for the board

Questions
9. Should assessing stewardship be retained as an objective of financial reporting? If so, should the title of the chapter be changed or are resource allocations and stewardship two aspects of one objective? 10. If stewardship is retained, should the chapter say that its effects on financial reporting are no different from the resource allocation objective? If not, how should comments of board members be addressed? 11. If stewardship is retained and has a different implication from the objective of making resource allocation decisions, how does it affect elements, recognition, and measurement?

Issue 6: The Objective of Financial Reporting as Distinguished from the Objective of Financial Statements

Paragraphs from Pre-ballot Draft

33. The following paragraphs of the pre-ballot drafts discuss the fact that the *Framework* applies to financial reporting rather than just financial statements. (The first is from the *Objectives* chapter and the second from the *Qualitative Characteristics* chapter.)

> BC1.3 Consistently with the boards' responsibilities, the objective pertains to financial reporting as a whole and not just to financial statements. Financial statements are a central part of financial reporting, and most of the issues that need to be resolved to enable the boards to make progress on standards projects involve financial statements. The boards' previous frameworks also focused on financial statements. Although the scope of the FASB Concepts Statement No. 1 *Objectives of Financial Reporting by Business Enterprises* was on financial reporting, the other FASB concepts statements focused on financial statements. The IASB's *Framework for the Preparation and*

Presentation of Financial Statements, which was published by the IASB's predecessor body in1989, focused only on financial statements.

QC4 Financial statements and notes provide information about the reporting entity's economic resources, other entities' claims against the reporting entity and its resources, and the transactions and other events and conditions that change those resources and claims (also referred to collectively as economic phenomena). Some financial reports also include explanatory material about managers' expectations and strategies for an entity and other types of forward-looking information that is intended to be useful

QC5 The objective of financial reporting applies to all types of financial information not just financial statements and the accompanying notes. The qualities described in this chapter can also be applied to all types of financial information although they may apply differently to forward-looking information than to information about existing resources, claims and changes therein. Later chapters in this framework focus entirely on information that should be reported in financial statements and notes. This chapter is a necessary logical link between the objective of financial reporting and guidance for determining what and how to report in financial statements and notes.

Board Members' Concerns

34. The following comments were made by board members:

a. Paragraphs QC4 and QC5. We have not explained the boundaries of financial reporting. I suggest the following:

   Change *financial statements and notes* in QC4 into *financial reports*.

   In QC5, delete the first sentence and the sentence beginning with the words *Later chapters*.

b. Paragraph BC1.3. This paragraph seems to indicate that this conceptual framework concentrates on financial reporting not financial statements unlike its predecessors. Perhaps this could be stated more forcibly.

c. Paragraph BC1.3. At the end, add explanation on why the 'objective pertains to financial reporting' as pointed out in the leading sentence.

Staff response

35. The Board previously decided to expand the *IASB Framework* to include all financial reporting instead of only financial statements and notes. One reason for making that change was to be consistent with the FASB Concepts Statements which refer to financial reporting, in general. Another was presumably to allow for future expansion of the Board's standards to include something other than financial reporting.

36. We understand those reasons. However, it is likely to be many years before the Board can address financial reporting issues beyond financial statements. The FASB Concepts Statements have referred to financial reporting for decades and yet the FASB has never addressed any matters outside financial statements and notes. An alternative would be to refer only to financial statements at this point even at the risk of being inconsistent with the FASB decisions and to amend that reference later if the Board decides to address matters beyond financial statements.

Question for the board

Questions
12. Is the reference to financial reporting instead of financial statements appropriate? If so, how would you respond to the comment that the Board has not defined the boundaries of financial reporting?

Issue 7: Financial Stability as a Possible Objective

Paragraphs from Pre-ballot Draft

37. The following paragraphs of the pre-ballot drafts discuss why financial stability is not an objective of financial reporting:

> BC1.16 Some constituents said that one of the objectives of financial reporting should be maintaining financial stability in capital markets. As regulators and fiscal policy decision-makers are responsible for maintaining financial stability, financial reports should also focus on this group's needs.
>
> BC1.17 Of course financial stability is important, and prudential regulators may find information from general purpose financial reports helpful in achieving that objective. However if promoting financial stability was an objective of financial reports, that would introduce bias into those reports. For example, some have suggested that in economic downturns, financial stability would be enhanced by delaying the reporting of losses or otherwise deemphasising 'bad news'. In contrast, primary users of financial reports need information that they can be confident 'that tells it like it is' (or 'was' at the end of the period.) An objective that could result in deliberate understating of losses or other negative economic events would undermine the credibility of financial reports. Therefore, the boards concluded that financial stability should not be an objective of financial reporting.

BC1.19 The Financial Crisis Advisory Group (FCAG) at their June 2009 meeting also agreed with the boards' conclusions.

> Financial statements should not directly have a financial stability objective, but, rather, that they should present the economic reality of a company and be as neutral and free from bias as possible. …. the financial stability objective and the presentation of economic reality were not mutually exclusive and that by presenting economic reality, financial statements could lead to more informed decision making and therefore support financial stability even if that is not the primary aim.

Board Members' Concerns

38. The following comments about paragraph BC1.17 were made by board members:

   a. The financial stability point needs to be subtler.

   b. Wouldn't *may* be a more appropriate word than *would* in the sentence that says '…if promoting financial stability was an objective of financial reports, that would introduce bias into those reports?'

   c. This is the consequence of using amortized cost. I would make reference to the conclusions of the FCAG on this matter in the context of banks' balance sheets – that is, fair value was underutilized by banks and, therefore, the loss content of banks' loan portfolios was understated.

   d. I suggest deleting paragraphs BC1.18 and BC. 1.19. The focus should be that information provided to primary users is also useful for regulators, and regulators are empowered to ask any information other than those in general purpose financial reporting.

   e. Is there a later FCAG report that should be referenced?

Staff response

39. This is more than just a technical issue, and we have no specific suggestions or recommendations.

Questions for the board

Questions
11. How should the Objectives chapter address financial stability?

Issue 8: Neutrality

Board Members' Concerns

40. Board members had several comments about neutrality but most were editorial. The only one that was not editorial was as follows:

Do we need to refer to neutrality in paragraph BC1.19 (financial stability discussion) and BC1.24 (objectives for different types of entities) or both?

Staff response

41. We interpret that comment to be a question about whether there should be a discussion of the need for the Board to be neutral and not just a statement that standards should be neutral.

Questions for the board

Questions
12. Should the Framework include a discussion of the need for the Board to be neutral?

Issue 9: Freedom from Error

Paragraphs from Pre-ballot Draft

42. The following paragraphs of the pre-ballot drafts discuss why financial stability is not an objective of financial reporting:

QC17 The phrase *freedom from error* is not intended to imply absolute certainty or precision. A representation with an error that is small enough not to change a user's decision would be considered free from error, as that phrase is used here. Many representations are necessarily based on judgments and estimates. Those representations would be considered to be free from error if they are based on appropriate inputs and estimation techniques that reflect the best available information.

QC18 Errors in method or application affect the faithfulness of a representation. Errors in method include consistently omitting, misdescribing, or misstating a particular economic phenomenon. For example, a capitalisation policy that prohibits capitalisation of items below a specified monetary threshold consistently understates the assets held. If that misstatement is large enough to change a user's decision, the information about those assets is not a faithful representation.

Board Members' Concerns

43. The following are comments about the discussion of *freedom from error*:

a. Paragraph QC17. The last sentence seems to imply there are no limits on subjective measures in financial reporting as long as the inputs and techniques are the best available even though those inputs and techniques may be wholly inadequate to provide information that is of any use. Or does the use of the word 'appropriate' provide some qualification?

b. Paragraph QC17. In the second sentence, if one knows what the error is then surely this implies one knows the correct measure. This also seems to contradict the last sentence since even if one uses the best information available there may still be errors.

c. Paragraph QC18. Why is the word 'consistently' important in the second sentence?

d. Paragraph QC18. The capitalization example is not very good.

Staff response

44. Comment (a) and the first part of comment (b) raise the same point. One can never say with certainty that an estimate from a model is free from error. However, if freedom from error is to be an aspect of faithful representation (and it should be), we do not have a suggestion for fixing this paragraph.

45. The second part of comment (b) is absolutely correct, and we plan to delete the second sentence of that paragraph.

46. Consistently is important because this refers to an error in method. An incorrect method will consistently produce errors. We do not understand why the capitalization example is not very good unless the point is that this is an accepted practice and should therefore not be criticized.

47. This also seems to be related to the discussion of verifiability and the related comments by Board members beginning in paragraph 52 of this paper.

Questions for the board

Questions
13. How can the discussion of freedom from error be improved so that it does not appear that an estimate produced by a model is always free from error if it uses the best available inputs? Should the example be eliminated or replaced?

Issue 10: Enhancing Qualities

Paragraphs from Pre-ballot Draft

48. The following paragraphs of the pre-ballot drafts that address enhancing characteristics were the subject of comments by board members:

QC23 *Comparability*, *verifiability*, *timeliness* and *understandability* are qualities that enhance the usefulness of information that is relevant and faithfully represented. Those same qualities may also help identify the more useful information if two different ways of depicting the same phenomenon are considered to be relevant and can be faithfully represented.

QC29 *Verifiability* helps assure users that information faithfully represents the economic phenomenon it is supposed to represent. Verifiability means that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

(a) the information represents the economic phenomenon or activity that it purports to represent neutrally, completely and without error; or

(b) an appropriate recognition, measurement or presentation method has been applied neutrally, completely and without error.

To be verifiable, quantified information need not be a single point estimate. A range of possible amounts and the related probabilities can also be verified.

QC31 It may not be possible to verify management commentary and other types of forward-looking financial information until a future period, if at all. To help users assess the validity of that information, the reporting entity should disclose the underlying assumptions, the methods of compiling the information, and other factors and circumstances that support the information.

Board Members' Concerns

49. The following are board members' comments related to enhancing characteristics:

    a. Paragraphs QC23. Does this paragraph mean that even if something completely lacks any of these enhancing qualities then could still meet the threshold of relevance and faithful representation? This seems rather odd in particular for verifiability which surely is a component of faithful representation?

    b. Paragraph QC23. Comparability should be emphasized as the most important enhancing characteristic, which is why we have accounting standards.

    c. Paragraph QC29. This paragraph seems to say that verifiability is related to faithful representation and not to relevance. Is this consistent with QC23?

    d. Paragraph QC 31. The example of management commentary is inappropriate. The second sentence says that 'the entity should disclose the underlying assumptions, the methods of ... that support the information'. But the point is where the information should be disclosed. Should it be part of the notes to the financial statements? We have not yet decided that the assumptions used for management commentary should be disclosed in the notes to the financial statements. We also have not yet decided the assumptions should be disclosed in the management commentary.

Staff response

50. Comment (a) raises a point that future board members may question, but the Board has never specifically addressed it.

51. Comment (b) raises many issues. Comparability certainly is important, but not always. For example, users following the FASB's project on segment reporting said in that case that it was more important to see how management views the information than to see comparable information for different entities. Some might disagree that comparability is most important because they believe verifiability is

the most important at least in some situations. We do not recommend establishing a hierarchy of enhancing characteristics.

52. Paragraph QC29 was not intended to be inconsistent with paragraph QC23, and QC 23 does not explicitly say that all of the enhancing qualitative characteristics enhance both relevance and faithful representation. However, future Board members and constituents may ask the same question raised by comment (c). It is hard to argue with paragraph QC29 since verifiability seems to have everything to do with faithful representation and nothing to do with relevance. It was originally discussed as an aspect of faithful representation, but the Board decided it was not essential in all cases. This issue is related to the discussion of freedom from error in paragraphs 45-50 of this paper.

53. Comment (d) may result from confusion over the meaning of the term 'management commentary'. Was it intended to refer to discussion in notes or was it intended to refer to the matters discussed in the Board's project on management commentary?

Questions for the board

Questions
14. Should the issue of whether something that lacks any of the enhancing qualities could still meet the threshold of relevance and faithful representation, be addressed? If so, what changes should be made? 15. Should there be a hierarchy of enhancing qualitative characteristics? If so, what should the order be? Alternatively, should comparability be identified as more important than the others? 16. Should either paragraph QC23 or paragraph QC29 be amended to remove any inconsistency? If so, what changes should be made? 17. What was the intended meaning of ‘management commentary’ in paragraph QC31? How can that paragraph be amended to clarify it? Alternatively, should paragraph QC31 be deleted?