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Project	**Conceptual Framework**		
Paper topic	Feedback summary—Measurement and Capital Maintenance		
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Purpose of paper

1. This paper summarises the feedback received on the discussion of measurement in Chapter 6 of the Exposure Draft *Conceptual Framework for Financial Reporting* (the Exposure Draft). It also summarises the feedback received on Chapter 8 'Concepts of Capital and Capital Maintenance'.

2. This paper provides a high level summary of the comments received. Where appropriate, we will provide a more detailed breakdown of the comments for future meetings.

Summary of key messages

3. In summary:

   (a) Some respondents suggested that further research was necessary before the Measurement chapter was issued. Others suggested that the *Conceptual Framework* should be issued with only limited guidance on measurement, with further research being undertaken subsequently.

   (b) Most responses that address the issue show considerable support for the measurement bases that were discussed in the Exposure Draft, and for the idea that consideration of the objective of financial reporting, and the qualitative characteristics and the cost constraint, is likely to result in the selection of different measurement bases for different assets, liabilities and items of income and expense.

(c) Some respondents consider that additional measurement bases should be addressed, and that aspects of measurement bases such as entry/exit values and entity-specific and non-entity-specific values should be considered.
(d) Although most respondents that express a view agree that principles for selecting a measurement basis should be based on the qualitative characteristics of useful financial information, some consider that the guidance proposed does not provide an adequate basis for the development of accounting Standards.
(e) Many respondents agree with the proposal that, where a current measurement basis is used in the statement of financial position, a different measurement basis may be used in the statement of profit or loss. However, some consider that further guidance or a clearer conceptual basis for this is necessary.
(f) Most respondents that commented on Chapter 8 'Concepts of Capital and Capital Maintenance' consider that it is unsatisfactory.

Structure of paper

4. This paper is structured as follows:

(a) general comments on the Measurement chapter (paragraphs 5-12);
(b) discussion of measurement bases, and their advantages and disadvantages (paragraphs 13-35);
(c) factors to consider when selecting a measurement basis (paragraphs 36-49);
(d) more than one relevant measurement basis (paragraphs 50-59);
(e) measurement of equity (paragraphs 60-62); and
(f) capital maintenance and inflation (paragraphs 63-67).

General comments on the Measurement chapter

5. The general approach adopted in the Measurement chapter of the Exposure Draft was to discuss:

(a) different measurement bases, the information provided by each basis and their advantages and disadvantages; and
(b) factors to consider when selecting a measurement basis.

6. The Exposure Draft asked respondents whether they agreed that the Exposure Draft had:

(a) correctly identified the measurement bases that should be described in the *Conceptual Framework*, and properly described the information provided by each basis and their advantages and disadvantages (Question 8); and
(b) correctly identified the factors to consider when selecting a measurement basis (Question 9).

7. The Measurement chapter attracted comments from approximately two-thirds of those that responded to the Exposure Draft. Many respondents addressed the two questions together or did not clearly attribute their comments to a particular question.

8. Most of those that expressed a clear view on the general approach adopted supported it, although some of these expressed significant reservations. Others expressed the view that the chapter did not provide an adequate foundation to support the development of accounting standards, including, in a few cases, specific support for Mr Finnegan's Alternative View. Respondents that expressed significant concerns included many (more than half) of the standard-setters that responded, and some accountancy bodies and accounting firms; representative bodies of preparers and users; and regulators. Specific concerns raised by respondents are discussed in subsequent sections of this paper.

9. Some of those who were concerned about the general approach suggested that further research should be carried out before the issue of a revised *Conceptual Framework*. Some others suggested that the revised *Conceptual Framework* should provide only limited guidance, and that further research to amplify the material on measurement should be undertaken subsequently.

10. Only a few respondents suggested that the Measurement chapter's discussion was biased: they were divided between those that suggested it favoured current values and those that considered that it favoured historical cost.

11. A few respondents suggested that the Exposure Draft's proposals on measurement represented a rationalisation of current practice or Standards. However, some were concerned that it did not reflect all the measurement bases used in current Standards: specific examples cited included: pension liabilities, deferred tax and (if it is a measurement basis) equity accounting.

12. One standard-setter stated that the Exposure Draft's discussion was focussed on the effect of different measurement bases on the statement of financial position rather than on income and expenses and disagreed with this focus.

Discussion of measurement bases, and their advantages and disadvantages

Exposure Draft proposals (paragraphs 6.4–6.47 and BC6.1–6.40)

13. The Exposure Draft said that consideration of the objective of financial reporting and the qualitative characteristics and the cost constraint is likely to result in the selection of different measurement bases for different assets, liabilities and items of income and expense. It then discussed measurement bases under the headings of historical cost and current value (fair value; and value in use (for assets) and fulfilment value (for liabilities)).

14. The Exposure Draft's discussion of historical cost explained that the carrying amount of an asset stated at historical cost is adjusted for depreciation and impairment; and that of a liability for accrual of interest, fulfilment and where the liability becomes onerous. It also noted that the historical cost basis includes amortised cost for financial assets and financial liabilities.

15. The Exposure Draft noted that historical cost information had predictive and confirmatory value, and was in many situations simpler and less expensive to prepare than information using current value measurement bases. It also said that historical cost information was well understood and verifiable. The Exposure Draft also noted, however, that historical cost may be difficult to determine when there is no observable transaction price, and may require subjective estimates of consumption and impairment, and that historical cost information may lack comparability when similar assets or liabilities are acquired at different times.

16. The Exposure Draft also provided a brief discussion of current cost, explaining that it was different from the measurement bases discussed under current values because it was, like historical cost, an entry value. The Basis for Conclusions noted that it was unlikely that the International Accounting Standards Board (the Board) would consider selecting current cost as a measurement basis when developing future Standards.

17. The Exposure Draft noted that measurements based on current value provide monetary information about assets, liabilities, income and expenses using information that is updated to reflect conditions at the measurement date. Current value

measurement bases were subdivided into fair value, which reflects the perspective of market participants, and value in use (for assets) and fulfilment value (for liabilities), which are entity-specific values.

18. The Exposure Draft noted that fair value reflected the perspective of market participants, which promoted comparability because it tended to ensure that different entities would report similar assets at similar amounts. It noted that fair value has predictive value because it reflects the amount, timing and uncertainty of future cash flows. The Exposure Draft also noted that fair value reflected the entity's own credit risk and risk premiums.

19. The Exposure Draft noted that fair value was simple to apply where the asset or liability was traded in an active market, but that in other cases, valuation techniques that may be costly, complex, subjective and difficult to verify may be needed.

20. The Exposure Draft described value in use and fulfilment value as entity-specific values. It noted that these bases might sometimes need to be customised by substituting market assumptions, or by excluding non-performance risk. It also noted that where fulfilment value is used on initial recognition of a liability, it includes a risk premium that is reduced as the entity is subsequently released from risk. This point was also made within the context of fair value.

21. The Exposure Draft also noted that many assets are used in combination with other assets, which can make determining value in use costly and complex.

22. The Exposure Draft described cash-flow-based measurement techniques as means of estimating the measure of an asset or liability on a defined measurement basis, rather than a separate category of measurement basis. These techniques were not therefore described in the body of the Exposure Draft; instead, they were briefly discussed in an Appendix.

Summary of feedback

Measurement bases: general comments

23. Nearly all of the respondents that commented on this issue supported the idea that consideration of the objective of financial reporting and the qualitative characteristics and the cost constraint is likely to result in the selection of different measurement

bases for different assets, liabilities and items of income and expense. This included a few (mainly from Australia) that acknowledged that it might seem conceptually superior to identify a single measurement basis (for example, because it would result in meaningful aggregate amounts), but doubted that this would be practicable. In general, these respondents did not specify which single measurement basis should be used. A few, however, expressed the view that financial statements should be prepared wholly on a historical cost basis, with information on current values being reported in supplementary disclosures. One respondent said that the ideal measurement model would adopt an operating capability concept of wealth and changes in wealth.

24. Most respondents agreed that it was appropriate to discuss measurement bases in the categories of historical cost and current value and this was explicitly welcomed by some. One standard-setter disagreed: they considered that the labels ‘historical cost’ and ‘current value’ are misleading, and that the classification of measurement bases should specifically allow for measurement bases that use partially updated inputs (a suggestion that another standard-setter also said might have merits).

25. Some respondents:

(a) said that recognition of impairment led to the adoption of a current measurement basis;
(b) questioned whether amortised cost represented a historical cost measurement; and
(c) questioned whether current cost should be discussed under the heading of ‘historical cost’.

Comments on historical cost

26. A few respondents expressed the view that the Exposure Draft did not adequately address the subjectivity inherent in historical cost measurement. A few also urged clarification of the conceptual foundations of historical cost, citing issues such as variable consideration or the purchase of an asset by exercising an option. A few expressed the view that differences in historical cost measurement of identical assets were informative, because they reflected the efficiency with which entities were able to acquire assets.

Comments on fair value

27. Some respondents questioned the claims made in the Exposure Draft for the relevance of fair value measurements, especially where the asset or liability was not traded on an active market, or where the entity did not intend to transfer the asset or liability. In contrast, a few specifically stated that fair value provided relevant information even where transfer was not intended.

Additional measurement bases

28. Some respondents urged the consideration of additional measurement bases. Those that were specifically identified included current cost, deprival value and cost of release. A few also noted that it would be helpful to address 'composite' measurement bases, such as the lower of cost and net realisable value.

Aspects of measurement bases

29. Some respondents, including some standard-setters, urged further discussion of entry and exit values. These respondents did not disagree with the observation in the Basis for Conclusions that *'there is often little difference between entry and exit values in the same market'*, but a few pointed out that for some entities (eg retailers) purchase and sale of assets takes place in different markets. A few respondents also urged a greater discussion of entity-specific and non-entity-specific measurement bases. One standard-setter suggested that entry/exit values and entity-specific /non-entity-specific values could form a helpful basis of categorisation, similar to that in the IPSASB Conceptual Framework.

Risk and customised values

30. Some respondents raised issues in connection with the reflection in measurement of own credit risk, non-performance risk and the inclusion of risk premiums in liabilities. One concern was that it was inappropriate to reflect (some or all) of these where the liability will be discharged by the entity itself.

31. Some respondents questioned the Exposure Draft's suggestion that value in use or fulfilment value might be customised to deal with some of these issues. Their views included that:

    (a) customisation was inappropriate;

(b) the *Conceptual Framework* should include more specific guidance on the circumstances in which customisation would be appropriate; and

(c) the use of customised values should be justified in each specific Standard in which it was prescribed.

Foreign currency

32. The Exposure Draft did not address concepts relating to the translation of amounts denominated in foreign currency. The Introduction to the Basis for Conclusions explained that the Board considered that this would be best dealt with in the revision of Standards. However, a few respondents expressed the view that the *Conceptual Framework* should deal with this topic.

Transaction costs

33. The Exposure Draft noted that transaction costs were reflected in historical cost measurements, but excluded from fair value, and that value in use and fulfilment value reflected transaction costs that would arise on disposal or fulfilment. A few respondents commented on transaction costs. Some of these sought greater clarity or a definition. A few argued that (following the precedent of IFRS 13 *Fair Value Measurement*) transaction costs should be excluded from historical cost. An academic respondent suggested that transaction costs should be included in fair value measurements. Another suggested that the *Conceptual Framework* should explain that whether or not transaction costs were included in a measurement basis should be considered within the context of selecting a measurement basis for the purpose or reporting financial performance.

Tabular presentation of information provided

34. A few respondents commented specifically on the table in the Exposure Draft that summarised the information provided by various measurement bases. The views expressed by these respondents were diverse. Those that found the table useful were fewer than those that said it was not useful. Most of those that commented on the table identified specific points where they considered clarification was necessary.

Cash-flow-based measurement techniques

35. No respondent questioned, and a few specifically agreed, that cash-flow based measurement techniques are a means of estimating the measure of an asset or liability rather than a separate category of measurement basis. A few standard-setters and

accounting firms suggested that the Appendix should not form part of the *Conceptual Framework*, because it addressed practical rather than conceptual issues.

Factors to consider when selecting a measurement basis

Exposure Draft proposals (paragraphs 6.48–6.73 and BC6.41–6.68)

36. The Exposure Draft discussed factors related to selecting a measurement basis for an asset or a liability and the related income and expenses. It noted that the relative importance of each of the factors will depend upon facts and circumstances.

37. The factors were discussed by reference to the qualitative characteristics of financial information: relevance, faithful representation and the enhancing qualitative characteristics of comparability, verifiability and understandability. The Exposure Draft said that timeliness had no specific implications for measurement. It also noted that the selection of a measurement basis was constrained by cost.

38. Factors important for relevance that were identified in the Exposure Draft were:

    (a) how the asset or liability contributes to cash flows, which depends, in part, on the nature of the business activities conducted by the entity;

    (b) the characteristics of the asset or the liability, including variability in cash flows and the sensitivity of value of the item to changes in market factors or other risks; and

    (c) the level of measurement uncertainty. This does not prevent the use of estimates, but may suggest that a different measurement basis may provide more relevant information.

39. The Exposure Draft suggested that faithful representation did not require that measures must be perfectly accurate in all respects, and that a faithful representation might require a similar measurement basis to be used for related assets and liabilities in order to avoid an accounting mismatch.

40. The Exposure Draft argued that initial and subsequent measurement could not be considered separately, because a consistent measurement basis is necessary to avoid reporting income or expenses solely as a result of a change in measurement basis. The Exposure Draft also discussed additional factors specific to initial measurement. This covered:

    (a) Exchanges of items of similar value.

(b) Transactions with holders of equity claims.
(c) Exchange of items of different value.
(d) Internal construction of an asset.

Summary of feedback

General comments

41. Most respondents agreed that the factors to be considered in the selection of a measurement basis should build upon the qualitative characteristics. However, some said that the guidance in the Exposure Draft was inadequate to provide a suitable foundation for the development of future accounting Standards. This was the most significant concern of those that, as noted in paragraph 8 above, considered that the Measurement chapter was inadequate or whose support was qualified by significant reservations. Concerns expressed by these respondents included that the links between the discussion of the measurement bases and the factors to consider was not clear; and that the implications of the factors to consider were not clearly stated. Some suggested that a hierarchy of factors should be developed.

42. Some of those that considered the guidance inadequate expressed the view that the Exposure Draft proposals lacked a sound theoretical basis. A few suggested that a separate objective for measurement was desirable to bring coherence to the proposals, and to link the selection of a measurement basis with the objectives of financial reporting. Some of these argued that this would be helpful even if that objective largely repeated the objective of financial reporting. Another suggestion was that the objective might build on the discussion of accrual accounting in Chapter 1.

43. A few respondents questioned the statement in the Exposure Draft that the enhancing qualitative characteristic of timeliness had no specific implications for measurement.

How an asset or liability contributes to cash flows

44. Some respondents specifically supported the suggestion that how an asset or liability contributes to future cash flows was an important factor to consider when selecting a measurement basis. Many of these supported the reference to 'business activities' and suggested that the idea of 'business activities' should be more prominent in the discussion of measurement, or even the primary factor. In a few cases, this was specifically within the context of measurement of income and expenses. However, a

few respondents were more limited in their support for the idea of 'business activities', suggesting that it should be subsidiary to other factors in some cases.

45. A few respondents were opposed to the reference to business activities within the context of measurement. One of their concerns was that it would lead to a loss of comparability. One standard-setter said that the material on business activities should not be expanded without further work and consideration, including further consultation.

Characteristics of the asset or liability: variability of cash flows or value

46. One standard-setter expressed the view that the *Conceptual Framework* should not identify the characteristics of the asset or liability as a factor to consider when selecting a measurement basis. They suggested that measurement basis should be selected purely on the manner of its contribution to cash flows. Although they agreed that characteristics of an asset or liability are important, they suggested that they influence the determination of how the asset or liability contributes to future cash flows. They explained how this might lead to a different selection depending on whether the selection is made for the purpose of reporting financial performance or financial position.

47. Another standard-setter said that the Exposure Draft failed to explain why the characteristics of the asset, particularly sensitivity to changes in value, were relevant, because the Exposure Draft did not discuss the notion of 'value'.

Initial and subsequent measurement

48. Other comments on the relationship between initial and subsequent measurement (in each case by a few respondents) included:

    (a) The material on initial measurement is inappropriate for inclusion in the *Conceptual Framework*. It addresses issues that are more appropriately considered in the development of accounting Standards.

    (b) It is incorrect to assume that the measurement basis used on initial recognition is the same as that used for subsequent measurement. Examples cited included assets and liabilities initially recognised on a business combination, or on first-time application of IFRS Standards.

    (c) It is not always the case that the cost of an asset or liability at initial recognition is similar to its fair value, except for the effect of transaction costs.

(d) It is inappropriate for the *Conceptual Framework* to imply that related party transactions should be accounted for at current values. For example, a few respondents suggested that an issue of equity shares within a group should not necessarily be accounted for at the current value of the asset received after deduction of any consideration given.

(e) Further consideration should be given to non-reciprocal transactions such as government grants.

(f) It would not be appropriate to measure an internally constructed asset at fair value.

Unit of account

49. A few respondents noted that some measurement bases could be applied only at specific levels of aggregation—for example, value in use can only be applied at the level of a cash-generating unit) and therefore suggested that the Measurement chapter should specifically refer to the unit of account issue.

More than one relevant measurement basis

Exposure Draft proposals (paragraphs 6.74—6.77 and BC6.68)

50. The Exposure Draft stated that:

(a) More than one measurement basis might be needed to provide relevant information about an asset, liability income or expense.

(b) In most cases the most understandable way to provide that information is by:

(i) using a single measurement basis both in the statement of financial position and in the statement(s) of financial performance; and

(ii) disclosing in the notes to the financial statements additional information using the other measurement basis.

(c) In some cases, because of the way in which an asset or a liability contributes to future cash flows (which depends in part on the nature of the business activities conducted by the entity) or because of the characteristics of the asset or the liability, the information provided in the financial statements is made more relevant by using:

(i) a current value measurement basis for the asset or the liability in the statement of financial position; and

(ii) a different measurement basis to determine the related income or expenses in the statement of profit or loss with the remaining income or expense in other comprehensive income.

Summary of feedback

51. The Exposure Draft asked respondents whether they agreed with the approach discussed in paragraphs 6.74–6.77 and paragraph BC6.68 (Question 10). The question was addressed by just under half of those responding to the Exposure Draft.

Dual measurement

52. Of those that responded to this question, many agreed that where a current measurement basis is used for the statement of financial position, a different measurement basis could be used in the statement of profit or loss. (This is referred to in this paper as ‘dual measurement’.) However, this support was often qualified, as explained in the following paragraphs.

53. Some respondents that agreed with dual measurement said that more guidance was necessary on the circumstances in which it was appropriate, or said that the proposals lacked a clear conceptual basis. This point was also made by a few respondents that disagreed with dual measurement. One respondent stated that a clear definition of profit or loss was necessary. A few respondents (including some that disagreed with the proposal) commented that the proposals represented a rationalisation of existing Standards.

54. Some respondents (including a few that disagreed with the proposal) stated that dual measurement should be used only in limited cases. In contrast, a few respondents commented that dual measurement should not be limited to rare cases.

55. A few respondents (including standard-setters) suggested that it would be clearer and more understandable to describe dual measurement as the separate reporting of different components of the change in the carrying amount of an asset or liability rather than the use of two different measurement bases. A few respondents questioned whether dual measurement was consistent with the articulation of financial statements (that is, changes in the carrying amount of assets and liabilities are matched by corresponding amounts in the statement(s) of financial performance). In particular, they considered that articulation implied the use of the same measurement basis in the statement of financial position and in the statement(s) of financial performance. One of these respondents suggested that the dual measurement approach as described in the Exposure Draft would result in the amounts reported in

other comprehensive income being bridging items that reflect accounting responses rather than economic phenomena:

56. A few respondents were concerned that dual measurement would give rise to increased cost or complexity or detract from the understandability of financial statements.

57. Comments made by respondents that disagreed with dual measurement included:

(a) If historical cost measurement is used in the statement(s) of financial performance, it should also be used in the statement of financial position.

(b) If fair value gains are not appropriately reported in the statement of profit or loss they should not be reported in other comprehensive income but, if relevant, be reported in the notes.

(c) A single concept of wealth should be used in the financial statements, and the same measurement basis should be used in the statement of financial position and in the statement(s) of financial performance.

58. Other comments on dual measurement included:

(a) A concern that dual measurement would lead to an increase in the use of fair value.

(b) Dual measurement should not be restricted to cases where a current value is used in the statement of financial position, but should also allow a historical cost measurement in the statement of financial position and a current value in profit or loss.

Disclosure in the notes

59. A few respondents addressed the statement in the Exposure Draft that the same measurement basis could be used in the statement of financial position as in the statement(s) of financial performance, and additional information using another measurement basis could be disclosed in the notes to the financial statements. A few respondents commented that this was not appropriate, mainly on grounds of cost and understandability. However, a similar number of respondents specifically supported disclosure of amounts determined on a different measurement basis in the notes. Another respondent commented that disclosure in the notes would be appropriate only if the recognition criteria are met.

Measurement of equity

Exposure Draft proposals (paragraphs 6.78—6.80 and BC6.69)

60. The Exposure Draft proposed that:

    (a) Total equity is not measured directly; instead it equals the total of the carrying amounts of all recognised assets less the total carrying amounts of all recognised liabilities.
    (b) The objective of general purpose financial statements is not to show an entity's value; consequently, total equity will not generally equal the market value of the entity's equity.
    (c) Although total equity is not measured directly, some individual classes or categories of equity may be measured directly.

61. The Basis for Conclusions explained that, although total equity is not measured directly, it may be necessary to measure individual classes or categories of equity directly to provide useful information.

Summary of feedback

62. Only a few respondents to the Exposure Draft commented on the proposals regarding measurement of equity. Of those respondents, most (mainly accounting standard-setters in the Asia-Oceania region) broadly agreed with the proposals except for the proposal to measure some classes or categories of equity directly. Reasons for disagreement included that:

    (a) It would be inappropriate to measure a component of equity because equity is defined as a residual.
    (b) It would be inconsistent with the entity perspective because re-attributing total equity would not have a financial effect on the entity as a whole.

Capital maintenance and inflation

Exposure Draft proposals (Chapter 8, and BCIN.24 and BC8.1)

63. The Exposure Draft included a discussion of capital maintenance that was substantially unchanged from the existing *Conceptual Framework*. The summary and invitation to comment explained that the Board would consider revising the

Conceptual Framework discussion of capital maintenance if it were to carry out future work on accounting for high inflation, and that no such work is currently planned.

64. The invitation to comment stated that the Board was not requesting comments on Chapter 8. Nonetheless, some respondents made comments on capital maintenance and inflation accounting. It is clear that most of these respondents consider these to be important issues.

Summary of feedback

65. Most of those that commented on the chapter on capital maintenance—the majority being standard-setters or accountancy bodies—suggested that it was unsatisfactory in its present form. They considered that the chapter was not useful, outdated and did not fit with the rest of the Exposure Draft. A few noted that it implied there was a choice of capital maintenance concept. There were diverse views as to what to do about the chapter:

    (a) Some respondents suggested that a new chapter on capital maintenance should be developed. Specific suggestions included that the *Conceptual Framework* should state that a financial concept of capital maintenance should be adopted, or that a physical capital maintenance concept will never be used. One respondent suggested that adoption of a clear concept of capital would assist in developing concepts of measurement and performance.
    (b) Some respondents suggested that the chapter should be deleted. This would not necessarily preclude further consideration of the issues. For example, one respondent that considered the chapter should be deleted suggested that further research on performance might identify a role for one or more concept(s) of capital maintenance.
    (c) Some respondents said that the chapter should either be further developed or deleted.
    (d) A few standard-setters, while regretting that the topic of capital maintenance was not more comprehensively discussed, suggested that the chapter could be retained (i) if accompanied by an explanation of the reasons for not further developing its proposals at this time, and (ii) if the implications of concepts of capital were explained in other chapters of the *Conceptual Framework*. One of these respondents specifically mentioned elements, measurement and the objective(s) of various financial statements.

66. Some respondents disagreed with the intention to consider possible accounting responses to inflation only within the context of hyperinflation. They argued that the cumulative effect of even moderate inflation would lead to significant distortions in

financial statements. A few also drew attention to the difference between general price changes (which is addressed by constant purchasing power accounting) and specific price changes, the impact of which is different for different entities within the same economy. A standard-setting body made the point that even where the general level of price changes is stable, specific price changes (for example, commodity prices) can be significant. Another standard-setting body expressed the need to address price changes by urging that the *Conceptual Framework* should address the characteristics that a currency must possess to be used as a functional or reporting currency. One respondent, a regulator, agreed with the view that concepts of capital maintenance are mostly relevant to high-inflation economies.

67. One standard-setter noted that the term 'capital maintenance' is sometimes used in a different sense from that used in the Exposure Draft, to refer to the legal concept that restricts companies from paying dividends or otherwise reducing legal capital.