

STAFF PAPER

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Purpose of the paper

1. This paper discusses whether any changes are needed to the proposed concepts on the unit of account in the light of the comments received on the Exposure Draft *Conceptual Framework for Financial Reporting* (the Exposure Draft). In particular, this paper considers whether:
 - (a) the proposed concepts should be expanded or shortened;
 - (b) the unit of account should be selected before or after considering how recognition and measurement would apply;
 - (c) it may be appropriate to select one unit of account for recognition and a different unit of account for measurement; and
 - (d) the cost constraint should be identified as a separate factor to consider in selecting the unit of account.
2. Appendix A sets out comments received on other aspects of the proposed concepts for a unit of account and provides staff responses to those comments.

Structure of the paper

3. This paper is structured as follows:

- (a) staff recommendations (paragraph 4);
- (b) Exposure Draft proposals (paragraphs 5–8);
- (c) summary of feedback (paragraphs 9–14); and
- (d) staff analysis and questions for the Board (paragraphs 15–32).

Staff recommendations

4. The staff recommend that the Board:
 - (a) does not provide additional guidance on the unit of account in the *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*);
 - (b) does not shorten the discussion of the proposed concepts on the unit of account;
 - (c) clarifies in the *Conceptual Framework* that the unit of account is selected for an asset or a liability when considering how recognition and measurement will apply;
 - (d) confirms that sometimes it may be appropriate to select one unit of account for recognition and a different unit of account for measurement;
 - (e) confirms that the selected unit of account may need to be aggregated or disaggregated for presentation and disclosure purposes; and
 - (f) does not identify the cost constraint as a distinct factor in selecting the unit of account and instead explains that, as with all other areas of financial reporting:
 - (i) cost constrains decisions on the unit of account; and
 - (ii) the benefits of the information provided to users of financial statements by selecting a particular unit of account must be sufficient to justify the costs of providing that information.

Exposure Draft proposals (paragraphs 4.57–4.63 and BC4.112–BC4.116)

5. The Exposure Draft described the unit of account as:
 - the group of rights, the group of obligations or the group of rights and obligations, to which recognition and measurement requirements are applied.

6. The Exposure Draft proposed that:
 - (a) a unit of account is selected for an asset or a liability after considering how recognition and measurement will apply, not only to that asset or liability, but also to the related income and expenses;
 - (b) in some cases, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement;
 - (c) the selected unit of account may need to be aggregated or disaggregated for presentation or disclosure purposes;
 - (d) the objective in selecting a unit of account is to provide the most useful information that can be obtained at a cost that does not exceed the benefits; and
 - (e) if an entity transfers part of an asset or part of a liability, the unit of account may change at that time so that the transferred component and the retained component become separate units of account.

7. In addition, the Exposure Draft discussed:
 - (a) examples of possible units of account; and
 - (b) factors to consider in selecting a unit of account in order to meet the objective described in paragraph 6(d), specifically:
 - (i) the relevance of the information provided about the resulting asset, liability, income and expenses;
 - (ii) the faithful representation of the transaction from which recognised asset, liability, income and expenses have arisen; and
 - (iii) the cost constraint of providing the information about that unit of account.

8. The Basis for Conclusions on the Exposure Draft explained that the Board believes that the selection of a unit of account is a decision to be taken when developing individual IFRS Standards, not a decision that can be resolved conceptually for a broad range of IFRS Standards. However, in response to comments received on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the Discussion Paper), the Exposure Draft provided a more detailed discussion than had been included in the Discussion Paper of the factors that the Board would need to consider when selecting a unit of account.

Summary of feedback

9. The invitation to comment on the Exposure Draft did not include a specific question on the concepts proposed for the unit of account. However, about a quarter of respondents provided comments on those concepts.
10. About a half of the respondents who commented on the proposed concepts explicitly agreed that the unit of account for a particular item must be considered at the Standards-level based on the concepts included in the *Conceptual Framework*. Some of these respondents suggested that the *Conceptual Framework* should require the Board to identify the unit of account in the Standards and explain the rationale for the selected unit of account in the Basis for Conclusions on the Standard in question. A few others suggested that preparers would also be applying the unit of account concepts, in particular for measurement purposes, and asked for clarifications and application guidance.
11. About a third of the respondents who commented on the unit of account welcomed the proposed concepts. Many of them explicitly stated that the proposed concepts are helpful and sufficient. Some respondents specifically welcomed the discussion of the factors to consider in selecting the unit of account, and the examples of possible units of account.
12. However, about a third of the respondents who commented on the proposals expressed concerns about the overall level of detail included in the Exposure Draft or the clarity of the proposed concepts. Of those respondents:

- (a) most respondents, mainly accounting firms and standard-setters, stated that the proposed concepts are insufficient or unclear. However, many of these respondents did not specify which aspects of the proposals need to be improved and did not make specific suggestions. The European Financial Reporting Advisory Group applied the proposed concepts to a range of examples and concluded that the proposed concepts do not provide a clear direction in selecting the unit of account.
 - (b) in contrast, the others stated that the proposed guidance is too long and needs to be shortened. For example, the European Securities and Markets Authority and the Accounting Standards Commission of Luxembourg suggested that the discussion in the *Conceptual Framework* should be limited to the description of the unit of account, examples of the possible units of account and the relationship between unit of account and recognition, measurement, presentation and disclosure.
13. Many respondents provided comments on specific aspects of the proposals. Common themes included:
- (a) some respondents, mainly standard-setters, expressed concerns about the proposal that the unit of account is selected *after* considering how recognition and measurement will apply. They argued that the unit of account should be selected *before* or *in conjunction with* determining recognition and measurement requirements for the item in question.
 - (b) some respondents commented on the proposal that sometimes it may be appropriate to select different units of account for recognition and measurement. The International Association of Insurance Supervisors and the Accounting Standards Board of Japan supported the proposals. The other respondents expressed the following views:
 - (i) some respondents, mainly standard-setters and accounting firms, asked the Board to clarify in the *Conceptual Framework* under which circumstances it would be appropriate to select different units of account for recognition and measurement. The Financial Reporting Council suggested that if the Board considers that the unit of account should

usually be the same for both recognition and measurement the *Conceptual Framework* should acknowledge that.

- (ii) some others, mainly standard-setters, expressed a view that, in principle, the unit of account for recognition and measurement should always be the same. Some acknowledged that the Board may make exceptions to this principle at the Standards-level and some others argued that practical expedients such as grouping individual items in a portfolio for measurement purposes should not be a part of the principle in the *Conceptual Framework*.
 - (c) Insurance Europe and the German Insurance Association disagreed with the proposal that the unit of account selected for recognition and measurement may need to be disaggregated for presentation and disclosure purposes. Insurance Europe argued that such a requirement would conflict with the principle that the costs of providing information must not exceed the benefits.
 - (d) some respondents commented on the discussion of the cost constraint in selecting the unit of account. They did not object to the proposed objective in selecting the unit of account being to provide the most useful information at a cost that does not exceed the benefits. However, many of them, mainly standard-setters, disagreed with the cost constraint being listed as a factor in selecting the unit of account alongside the qualitative characteristics of relevance and faithful representation. They suggested that the cost constraint plays a similar role in selecting the unit of account as it does in selecting a measurement basis.
14. Some respondents commented on other individual aspects of the proposals, notably combining individual rights and obligations into a single unit of account, the factors to consider in selecting a unit of account and the interaction between the concepts on derecognition and the concepts on unit of account. However, no common themes emerged. Those individual comments and the staff response to those comments are set out in the appendix.

Staff analysis

The overall level of detail in the concepts on the unit of account

15. The staff note the concerns expressed by some respondents who suggested that the proposed concepts on the unit of account are insufficient or unclear and will not provide a clear direction to the Board in selecting a unit of account when setting the Standards. Many of these respondents did not specify which aspects of the proposals need to be improved and did not make specific suggestions.
16. The staff acknowledge that the proposed concepts would not automatically lead the Board to a specific decision on the unit of account in particular circumstances. However, the staff think that the proposed thought process for the Board to follow in selecting the unit of account and the examples included in the Exposure Draft would assist the Board in identifying the appropriate unit of account in setting the Standards. Indeed, the staff note that many of the respondents who commented on the level of detail included in the Exposure Draft explicitly agreed that the proposed concepts were helpful, sufficient and appropriate for the *Conceptual Framework*. In applying those concepts in the Standards, the Board would need to exercise judgement.
17. The staff also note the requests received from some respondents to shorten the discussion of the proposed concepts. For example, as noted in paragraph 12(b) of this paper, the European Securities and Markets Authority suggested that the *Conceptual Framework* should only describe the unit of account, discuss its interaction with recognition, measurement, presentation and disclosure and provide examples of the unit of account. They suggested that the discussion of the factors to consider in selecting a unit of account and the discussion about the interaction between the concepts on the unit of account and the concepts on derecognition were too detailed and not necessary for the *Conceptual Framework*.
18. However, the staff do not think that shortening the discussion of the proposed concepts would be appropriate. Indeed the discussion of the concepts proposed in the Exposure Draft was expanded compared to the discussion included in the Discussion Paper in response to the feedback received on that document. In addition, as noted in paragraph 16 of this paper, many respondents who commented on the level of detail

stated that the proposals are appropriate. In particular, some respondents stated that the discussion of the factors to consider in selecting a unit of account is helpful.

19. Accordingly, the staff do not recommend that the Board provides additional guidance on the unit of account in the *Conceptual Framework*. Likewise, the staff do not recommend that the Board shortens the discussion of the proposed concepts. However, the staff think that the Board could clarify particular aspects of the proposals as discussed in the following sections.

Question 1 for the Board

Does the Board agree with the staff recommendation in paragraph 19?

Selecting the unit of account when considering how recognition and measurement will apply

20. Some respondents commented on the proposal in the Exposure Draft that the unit of account is selected for an asset or liability *after* considering how recognition and measurement will apply. Some of those respondents were confused by this proposal. Some stated that this proposal appears inconsistent with the notion of selecting a unit of account for the purposes of recognition and measurement and asked the Board for clarifications.
21. Other respondents disagreed with the proposal. They argued that the unit of account should be selected before or in conjunction with considering how recognition and measurement would apply.
22. The staff do not think that the Board intended to imply in the Exposure Draft a particular *sequence* in which the Board would consider the unit of account for recognition and measurement. The staff agree with the view expressed by some respondents that the selection of the unit of account for recognition and measurement and consideration of how recognition and measurement will apply are interrelated and therefore should be considered at the same time, rather than sequentially. Indeed, it would not be possible to set out recognition requirements or a measurement basis for a particular item without selecting a unit of account to which those requirements would apply. Likewise, selecting a unit of account without considering how

recognition and measurement requirements would apply may not result in useful information. Therefore, in practice, the Board will be considering both the unit of account and recognition and measurement requirements for a particular item at the same time.

23. Accordingly, the staff recommend that the Board clarifies in the *Conceptual Framework* that the unit of account is selected for an asset or a liability *when* considering how recognition and measurement will apply.

Question 2 for the Board

Does the Board agree with the staff recommendation in paragraph 23?

Unit of account for recognition, measurement, presentation and disclosure

24. Many of the respondents who discussed specific aspects of the proposed concepts on the unit of account commented on the proposal that in some circumstances it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. Many of them either asked the Board to clarify in the *Conceptual Framework* when doing so may be appropriate or argued that, in principle, the unit of account for recognition and measurement should be the same. Some suggested that applying a different unit of account to measurement than to recognition in the Standards could be appropriate but that would represent a practical expedient or an exception to the principle.
25. The staff remain of the view that, in principle, the unit of account can be different for recognition and measurement. The staff think that from the conceptual standpoint it is possible for items to qualify for recognition on an individual basis and to be measured on a group basis. For example, items included in a cash-generating unit would qualify for recognition on an individual basis but would represent a single unit of account for measuring the recoverable amount. The staff do not think that such an approach represents an exception to the principle.
26. The staff agree that *sometimes* applying measurement to a portfolio of items rather than individual items would represent a practical expedient. However, the staff do not think that it would always be the case.

27. Accordingly, the staff think it would be appropriate for the *Conceptual Framework* to state that in some circumstances different units of account may be selected for recognition and measurement. The staff note the suggestions made by some respondents to specify in the *Conceptual Framework* whether there is a particular starting point, such as that typically the unit of account for recognition and measurement should be the same. However, as long as the Board agrees that in principle the unit of account could be different for recognition and measurement, the staff do not think that it is necessary for the *Conceptual Framework* to state how often they will be the same and how often they will be different.
28. The staff note the concerns raised by respondents representing the insurance industry that it is not appropriate to disaggregate the selected unit of account for presentation and disclosure purposes. However, as discussed in Chapter 7 *Presentation and Disclosure* of the Exposure Draft, sometimes income and expenses arising from a change in the carrying amount of an asset or a liability may contain components that possess very different characteristics. For example, a change in the fair value of a financial asset mandatorily classified at fair value through other comprehensive income in accordance with IFRS 9 *Financial Instruments* could contain accrual of interest income, a change in the expected credit losses and other changes in fair value. In accordance with the concepts on presentation and disclosure set out in the Exposure Draft and confirmed by the Board at its September 2016 meeting, classifying dissimilar items separately enhances the usefulness of information in the financial statements.
29. Accordingly, the staff recommend that the Board confirms that:
- (a) sometimes it may be appropriate to select one unit of account for recognition and a different unit of account for measurement; and
 - (b) the selected unit of account may need to be aggregated or disaggregated for presentation and disclosure purposes.

Question 3 for the Board

Does the Board agree with the staff recommendation in paragraph 29?

Consideration of the cost constraint in selecting the unit of account

30. Some respondents argued that the cost constraint should not be identified as a separate factor to consider in selecting the unit of account. Some of them suggested that the cost constraint has the same role to play in selecting the unit of account as it does in other areas of financial reporting, such as measurement.
31. The staff agree with those comments. In addition, the staff note that the Board tentatively decided at its July 2016 meeting that the revised *Conceptual Framework* should identify only two criteria for recognition—relevance and faithful representation. The need for benefits that exceed the costs would not be identified as a third distinct recognition criterion. Instead, the revised *Conceptual Framework* would explain that, as with all other areas of financial reporting, cost constrains recognition decisions and the benefits of the information provided to users of financial statements by recognition of an asset or a liability (and any related income, expenses or changes in equity) must be sufficient to justify the costs of providing that information. The staff think that the same approach would be appropriate for the concepts on the unit of account.
32. Accordingly, the staff recommend that the Board does not identify the cost constraint as a separate factor in selecting the unit of account and instead explains that, as with all other areas of financial reporting:
- (a) cost constrains decisions on the unit of account; and
 - (b) the benefits of the information provided to users of financial statements by selecting a particular unit of account must be sufficient to justify the costs of providing that information.

Question 4 for the Board

Does the Board agree with the staff recommendation in paragraph 32?

Appendix A—other comments on the proposed concepts on the unit of account

A1. This appendix sets out other comments received on the proposed concepts on the unit of account and the staff’s proposed response.

	Respondents’ comments	The staff’s response
A1	Some respondents suggested that the <i>Conceptual Framework</i> should require the Board to identify the unit of account in the Standards and to explain the rationale for the selected unit of account in the Basis for Conclusions on the Standard in question.	In setting recognition and measurement requirements the Board will necessarily have to consider the unit of account to which those requirements would apply and the Basis for Conclusion on each Standard will explain the Board’s decisions. It is therefore unnecessary for the <i>Conceptual Framework</i> to explicitly require the Board to identify the unit of account in the Standards and to explain the rationale for the selected unit of account in the Basis for Conclusions on the Standard in question.
A2	A few respondents suggested that the <i>Conceptual Framework</i> should discuss different scenarios of when individual items are aggregated into a single unit of account.	The staff think that the additional detail and examples are unnecessary for the <i>Conceptual Framework</i> . The proposed concepts stated that in selecting the unit of account for recognition and measurement the Board should consider the qualitative characteristics of relevance and faithful representation. There could be different reasons why a particular unit of account would result in the most relevant information that faithfully represents what it purports to represent.
A3	The Financial Reporting Council noted that it is common for there to be more than one unit of account for measurement purposes. For example, an asset might be componentised for the purposes of depreciation but grouped together with other assets for the purposes of determining fair value or	The staff do not think that it is necessary for the <i>Conceptual Framework</i> to discuss the possibility of selecting different units of accounts for different measurement purposes. The staff think that the proposed concepts would enable the Board to select different units of account for

Respondents' comments	The staff's response
<p>value-in-use. They suggested that the <i>Conceptual Framework</i> should acknowledge that.</p>	<p>measurement in setting Standards where applicable.</p>
<p>A4 Two respondents commented on the interaction between unit of account for measurement and presentation of items in the financial statements. For example, Deloitte Touche Tohmatsu Limited asked the Board to clarify whether an asset that is componentised for depreciation purposes is one unit of account with some components depreciated at different rates or several units of account with a single unit of presentation.</p>	<p>The <i>Conceptual Framework</i> will state that the unit of account is assessed together with recognition and measurement. The unit of account for determining depreciation may be a component of the asset while the unit of account for determining the recoverable amount may be a cash-generating unit that includes the asset in question. There is no direct relationship between the unit of account selected for particular measurement purposes and presentation and disclosure of the item in the financial statements. The <i>Conceptual Framework</i> will state that a single unit of account for recognition and measurement may need to be disaggregated or aggregated for presentation and disclosure purposes.</p>
<p>A5 ACTEO-AFEP-MEDEF suggested that the unit of account may have an impact on the existence of an asset or a liability rather than just on recognition and measurement.</p>	<p>The staff do not think that the level of aggregation of rights and obligations will typically affect the conclusion about whether an asset or a liability is identified. However, the staff note that the <i>Conceptual Framework</i> will state that existence uncertainty could affect decisions about recognition of the asset or liability. The <i>Conceptual Framework</i> will also state that the unit of account is considered when making decisions about recognition and measurement. Accordingly, in making decisions about whether and how a particular item should be recognised the Board will consider both the existence uncertainty of the item in question and the applicable unit of account.</p>

Respondents' comments	The staff's response
<p>A6 A few respondents asked the Board to provide more guidance on when rights and obligations should be analysed individually and when they should be aggregated into a single unit of account. A few respondents specifically commented on the role of separability in selecting the unit of account. The International Swaps and Derivatives Association supported the idea that in some situations separable rights and obligations can exist within a single unit of account. They noted this is particularly relevant for insurance contracts. PricewaterhouseCoopers and Singapore Accounting Standards Board asked the Board to provide more guidance on the notion of separability. PricewaterhouseCoopers asked the Board to clarify why, in the case of executory contracts, the right and obligation are considered interdependent and treated as a single item when in other instances they are considered separate units of account.</p>	<p>In combining the rights and / or obligations into a unit of account the Board will be guided by the qualitative characteristics of relevance and faithful representation of the resulting information. The staff do not think that providing additional guidance on how those characteristics would be applied is appropriate or feasible for the <i>Conceptual Framework</i>.</p> <p>The staff also note combining rights and obligations into a single unit of account is different from identifying an executory contract. This is because an executory contract does not represent an aggregation of a right (to receive an economic resource) and a separate obligation (to transfer another economic resource). Rather, it represents a combined (inseparable) right and obligation to exchanger economic resources.</p>
<p>A7 The Singapore Accounting Standards Council suggested that the Board should consider whether enhancing qualitative characteristics have a role to play in selecting the unit of account. They suggested that each separable right is conceptually a separate asset but that selecting the unit of account at such a granular level would likely reduce understandability. They argued that related rights are indeed often combined at an appropriate level and treated as a single unit of account</p>	<p>The staff have not identified a significant role for the enhancing qualitative characteristics in the selection of a unit of account.</p>
<p>A8 A few respondents requested more guidance on the proposed factors to consider in selecting the unit of account.</p>	<p>The staff do not think that the <i>Conceptual Framework</i> should prioritise the qualitative characteristics</p>

Respondents' comments	The staff's response
<p>The Accounting Standards Board of Japan suggested that the <i>Conceptual Framework</i> should discuss how those factors should be prioritised. The Austrian Financial Reporting and Auditing Committee and Canadian Bankers Association asked the Board to clarify whether the conditions in paragraph 4.62(a) of the Exposure Draft have all to be fulfilled. The Austrian Financial Reporting and Auditing Committee noted that in some circumstances individual factors could lead to different conclusions. Mazars suggested that the guidance in paragraph 4.61(a) of the Exposure Draft that discusses the role of relevance in selecting the unit of account could be enhanced by including a reference to substance over form and discussing identifying a physical object instead of the underlying rights.</p>	<p>of relevance and faithful representation. Instead, the Board will need to apply judgement in considering those characteristics in selecting the unit of account.</p> <p>The staff will consider in drafting how to clarify that the conditions in paragraph 4.62(a) need not all be met. The staff note that the Board will need to apply judgement in applying those conditions if they point to different conclusions to ensure that the overall objective of selecting the unit of account is best met.</p> <p>The staff note that the <i>Conceptual Framework</i> discusses substance over form as part of the qualitative characteristic of faithful representation. Accordingly, it is also discussed in the concepts of unit of account in connection with faithful representation rather than relevance.</p>
<p>A9 PricewaterhouseCoopers and the Polish Accounting Standards Committee suggested that the <i>Conceptual Framework</i> should clarify that only the Board can consider the cost constraint in selecting the unit of account.</p>	<p>The application of the cost constraint is already discussed in Chapter 2— <i>Qualitative characteristics of useful financial information</i> of the Exposure Draft. Therefore, the staff do not think it is necessary for the concepts on unit of account to specify how the cost constraint will be applied.</p>
<p>A10 Insurance Europe and the German Insurance Association argued that the proposal for the unit of account selected for recognition and measurement to be disaggregated for presentation and disclosure purposes is inconsistent with the cost constraint. They expressed a view that the costs of providing information for just presentation and disclosure purposes would not justify</p>	<p>The cost constraint is a pervasive consideration in financial reporting and it will be considered by the Board in setting presentation and disclosure requirements in Standards.</p>

Respondents' comments		The staff's response
	the benefits.	
A11	A few respondents commented on the interaction between the concepts on the unit of account and derecognition. For example, the Japanese Institute of Certified Public Accountants asked the Board to clarify how the concepts on the unit of account will inform decisions on derecognition and in particular whether partial or full derecognition is appropriate.	The <i>Conceptual Framework</i> will state that if an entity transfers part of an asset or part of a liability, the unit of account may change at that time so that the transferred component and the retained component become separate units of account (paragraph 4.63 of the Exposure Draft). The staff thinks that this makes it clear that derecognition and the unit of account should be considered together. Whether such considerations would lead to partial or full derecognition in a particular case is a standards-level question.
A12	Some respondents disagreed that the discussion of the unit of account should be located in Chapter 4— <i>The elements of financial statements</i> of the <i>Conceptual Framework</i> and made alternative suggestions on where in the <i>Conceptual Framework</i> those concepts should be discussed.	The staff will consider the location of the concepts on the unit of account in drafting the <i>Conceptual Framework</i> .
A13	The China Accounting Standards Committee and the Accounting Standards Board of Japan suggested that the Board should conduct further research on the unit of account	The Board is required to follow its due process for adding a project to its research agenda. The Board does not have current plans to undertake a research project on unit of account.