STAFF PAPER

July 2014

IASB Meeting

Project	**Conceptual Framework**		
Paper topic	Business model		
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Purpose of the paper

1. The purpose of this paper is to consider whether business model has a role to play in standard-setting.

2. A future paper will consider whether there are any additional considerations that are specific to business models that involve long-term investment.

Summary of staff recommendation

3. The staff recommend that the Exposure Draft of the revised *Conceptual Framework* should state that consideration of the nature of an entity's business activities is likely to improve the relevance of financial information. It should describe for each area of standard-setting how the nature of an entity's business activities would affect that area of standard-setting. The IASB should tailor that description to each area affected, rather than provide a single over-arching description.

4. The staff believe that the nature of an entity's business activities is likely to affect measurement, unit of account, the distinction between profit or loss and OCI, and presentation and disclosure more than it is likely to affect other areas covered by the *Conceptual Framework*.

Structure of the paper

5. This paper is structured as follows:

   (a) Background (paragraphs 6-20)

   (b) Staff analysis (paragraphs 21-45)

   (c) Staff recommendations (paragraphs 46-50)

   (d) Appendix A: Summary of how various organisations have defined or explained ‘business model’

Background

6. This section gives an overview of:

   (a) the IASB’s preliminary views on the business model, as expressed in the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (paragraphs 7-8);

   (b) the response to the IASB’s preliminary views (paragraphs 9-16);

   (c) the comments received from Accounting Standards Advisory Forum (ASAF) members in June 2014 (paragraph 17); and

   (d) a description of how other organisations have described what a business model is (paragraphs 18-20).

Discussion Paper

7. The IASB did not define business model in the Discussion Paper. Instead, the Discussion Paper:

   (a) expressed the view that ‘financial statements can be made more relevant if the IASB considers, when it develops or revises particular Standards, how an entity conducts its business activities’.

   (b) noted that the following sections of the Discussion Paper considered how an entity conducts its business activities:

(i) Section 6–Measurement: the IASB should consider how an asset contributes to future cash flows and how a liability will be settled or fulfilled when deciding on an appropriate measurement method.

(ii) Section 7–Presentation and disclosure: in determining the level of aggregation or disaggregation in the primary financial statements, the IASB or an entity will need to consider how the item is used in the entity's business.

(iii) Section 8–Presentation in the statement(s) of profit or loss and other comprehensive income: in deciding whether to present different measurements in profit or loss and the statement of financial position (ie a bridging item), the IASB should consider (among other things) how the entity will use that item in its business.

8. The Discussion Paper stated that the IASB had not identified any other significant implications of the business model notion for the *Conceptual Framework*.

Overview of comments received

9. Respondents had different views on what a business model is, and this led to mixed views on whether the business model should be considered fundamental to financial reporting or should play a more limited role.

10. Most respondents agreed that the IASB should consider how an entity conducts its business activities when determining issues relating to measurement, presentation and disclosure, and the distinction between profit or loss and OCI. They typically described these as examples of applying the business model in standard-setting.

11. In addition, some preparers thought that consideration of the business model is also relevant in:

(a) determining the unit of account;

(b) considering the distinction between liabilities and equity (this view was expressed by the many co-operative entities that responded to the Discussion Paper); and

(c) deciding whether to recognise an asset or liability.

12. Some respondents to the Discussion Paper thought that the IASB should define, or provide further clarification on, 'business model' in the *Conceptual Framework*. Otherwise different interpretations of 'business model' could arise in practice.

13. A few respondents were concerned about using the term 'business model' at all. This is because they thought that different parties - investors, management and securities regulators - define or understand it differently from how it has been explained in, for example, IFRS 9 *Financial Instruments*.

> It is important for accounting to reflect actual business as it is conducted. However, the IIF SAG reiterates its concern that there is a danger of confusion if an accounting concept is labelled as a business model. Inevitably, a formal accounting concept is unlikely to coincide with what investors, management or regulators mean by business model, a point of high importance when business models (in the common usage of the term) are under intense scrutiny as a result of market, economic, and regulatory changes. Therefore, the Board might consider whether a different term or expression than business model should be used. *Institute of International Finance*

14. Some respondents thought that there are many types of business models. Consequently, they did not support the idea that the IASB should consider the business model notion in standard-setting because the IASB may not be able to develop Standards that would adequately represent the many different business models.

What users said

15. Some user respondents (mainly user groups) commented on the role of business model in standard-setting:

    (a) One group of users that identified themselves as long-term investors emphasised the importance of considering business model in developing Standards instead of using 'management intent' when developing Standards. They viewed a business model as 'the purpose for which the company is currently configured and the means by which the company intends to generate returns on equity in excess of the cost of equity on a sustainable long-term basis'.

(b) A few users thought that consideration of an entity's business model(s) could be used to help ensure that financial reporting reflects the economic substance of the entity's activities. However, they stated that, used inappropriately, the business model notion could undermine comparability (for example, by allowing accounting policy choices for transactions that are identical in substance).

16. Other users disagreed that the IASB should place emphasis on the business model. They suggested that referring to the business model could introduce management bias into financial reporting. They advocated 'a more objective basis to achieve a faithful representation of assets and liabilities', in which neither management's intentions nor the reporting entity's business model affect the measurement of assets or liabilities. In their view, objective measures of assets and liabilities would show clearly the outcome of the reporting entity's business model.

What ASAF members said

17. At its June 2014 meeting, the ASAF discussed whether business model (or similar notions) should play a role in financial reporting[1]. ASAF members gave the following views:

(a) In general, ASAF members stated that the way in which an entity conducts its business activities should be considered in standard-setting. However, most participants suggested that it should only be one of the factors to consider when developing standards that provide useful information to users of financial statements.

(b) Most participants stated that the way in which an entity conducts its business activities should play a role when determining measurement bases. Views varied on whether the nature of an entity's business activities should play a role in other areas, for example, recognition,

[1] http://www.ifrs.org/Meetings/MeetingDocs/ASAF/2014/May/08A%20Conceptual%20Framework.pdf

presentation and disclosure, distinguishing between liabilities and equity and distinguishing between profit or loss and OCI.

(c) Most ASAF members stated that it is not necessary to define or describe business model in the *Conceptual Framework*. Many ASAF members indicated that different interpretations of the term 'business model' exist. Some ASAF members suggested that it might be better to discuss the 'nature of business activities' rather than the 'business model'.

Summary of how other organisations described the term 'business model'

18. We reviewed how other organisation have used the term 'business model' and noted that, consistently with the response to the Discussion Paper, there is a variety of descriptions of 'business model'. Our review covered work undertaken by EFRAG, the Enhanced Disclosure Task Force (EDTF) and the International Integrated Reporting Council's. Appendix B highlights how these organisations defined or explained an entity's business model.

19. In summary, the different articulations of business model are as follows:

    (a) How the entity uses particular assets and/or liabilities to generate cash flows.

    (b) How an entity as a whole generates cash flows.

    (c) The areas in which the entity operates, for example, manufacturing, e-commerce.

    (d) How the management intends to use an individual asset or liability to generate cash flows.

    (e) A business model considers all types of inputs, ie culture, procedures and strategies to support the objective of the entity.

20. Some respondents suggested specific business models that the IASB should focus on. For example:

    (a) Some suggested that there is a long-term investment business model with characteristics different from the characteristics of business models that focus on a shorter time horizon. As noted above, a future paper will consider whether there are any additional considerations that are specific to business models that involve long-term investment.

(b) Some suggested that there are business models that involve paying particular attention to interactions between the entity's liabilities and its assets (asset-liability management models).

(c) Roger Marshall and Andrew Lennard in their paper *The reporting of income and expense and the choice of measurement bases*[2] suggest that there are two common types of businesses:

(i) Value added businesses: Businesses that obtain inputs from suppliers and employees and, usually after some kind of process, use those inputs to provide goods and services to customers from which revenue is obtained. Examples include manufacturing and providers of services types of businesses.

(ii) Price change businesses: Other businesses that involve the acquisition of assets (and sometimes liabilities) in order to benefit from gains resulting from changes in their value. Examples of such businesses are commodity dealers and investment funds.

Staff analysis

21. In this section, we analyse whether the nature of an entity's business activities has a role in the different areas of standard-setting:

(a) Recognition of assets and liabilities (paragraphs 23-24)

(b) Measurement (paragraphs 25-30)

(c) Presentation and disclosure (paragraphs 31-34(b))

(d) Distinction between profit or loss and OCI (paragraphs 35-39)

(e) Distinction between liabilities and equity (paragraphs 40-41)

[2] http://www.ifrs.org/Meetings/MeetingDocs/ASAF/2014/May/06%20Conceptual%20Framework.pdf. This paper was discussed at the June 2014 ASAF meeting.

(f) Unit of account (paragraphs 42-44)

22. In our staff analysis, we have used the term 'nature of an entity's business activities', as suggested by ASAF members. We think that using the term 'business model' in our analysis could be confusing because of the different meanings that are associated with that term.

Recognition of assets and liabilities

23. Most respondents did not think that consideration of an entity's business activities should have a role in recognition. However, respondents to the Discussion Paper gave two examples of how the nature of an entity's business activities could affect recognition. Our analysis below, however, suggests that these examples do not in fact raise questions of recognition.

Examples	**Staff analysis**
A forward contract to buy coal might be an unrecognised executory contract for an energy producer, but might be a recognised financial instrument for a commodities trader.	When discussing executory contracts in June 2014, the IASB noted that 'many existing Standards implicitly apply the same measurement bases for executory contract assets or liabilities as they specify for the assets or liabilities that arise when one of the parties subsequently performs its obligations.' Therefore in that example, the forward contract would be measured under existing Standards at: a) cost (zero) by the energy producer because the coal is subsequently treated as inventory (which is measured at cost). b) fair value by the commodities trader because the commodities trader will typically settle the contract net. Because that net settlement relieves both parties of their obligations to deliver or receive the coal and the consideration for the coal, no performance occurs and so no assets or liabilities can arise from performance of those obligations. Instead, existing Standards select the measurement basis that provides the most relevant information about the ultimate settlement.

Examples	Staff analysis
	Consequently, this example relates not to recognition of assets and liabilities but to their measurement.
An item which is a specific bundle of rights to one entity with a trading business model may represent a different bundle of rights to another entity with a held-for-use business model.	This example does not relate to recognition of assets and liabilities, but illustrates two other issues, which we discuss separately below: a) What unit of account the entity should use in accounting for the item. The item will create the same rights or obligations, regardless of the entity's business activities. However, the nature of the entity's business activities might have some role in determining whether an entity should account separately for some components of the bundle of rights. b) How to measure rights and obligations.

24. We think that consideration of an entity's business activities does not play a role in recognition of assets and liabilities for the following reasons:

    (a) Apart from the two examples above, respondents to the Discussion Paper did not identify any other situations when consideration of an entity's activities might be relevant to the recognition of assets and liabilities; and

    (b) Currently, consideration of an entity's business activities does not play a role in recognition of assets and liabilities and we have not heard that this is an issue in practice.

Measurement

25. Most respondents who supported consideration of the nature of an entity's business activities focused on measurement.

26. The Discussion Paper suggested that 'the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how

an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:

(a) for a particular asset should depend on how that asset contributes to future cash flows; and

(b) for a particular liability should depend on how the entity will settle or fulfil that liability'.

27. Many respondents interpreted this preliminary view as meaning that the IASB would consider the nature of an entity's business activities when selecting an appropriate measurement basis. Some of those who supported this preliminary view thought that implementing this would make financial information more relevant than it would be if measurement decisions were independent of the nature of an entity's business activities.

28. However, a few respondents did not think that consideration of the nature of an entity's business activities should play a role in determining which measurement basis to use. This is because they believe that the value of an asset or liability is independent of the business model of the reporting entity.

Staff analysis

29. We think that the way in which assets contribute to future cash flows and the way in which an entity will settle or fulfil a liability are relevant to the selection of measurement bases. How the assets contribute to future cash flows and the way liabilities are settled or fulfilled could be influenced by the nature of an entity's business activities, for example, whether an asset is used as inventory, as property, plant and equipment or as a form of investment.

30. Further discussion on the selection of measurement bases is planned for the September meeting.

Presentation and disclosure

31. Some respondents suggested that the IASB should consider the nature of an entity's business activities when considering presentation and disclosure. Examples of the areas highlighted are:

(a) types of disclosures in the notes to the financial statements;

(b) entity-specific communication principles; and

(c) the boundary between financial statements and other types of financial reporting.

However there was little explanation of why these respondents thought that the business model should be considered in these areas.

Staff analysis

32. With regard to presentation of financial information, we think that considering the nature of an entity's business activities can lead to presentation decisions that make the financial information more understandable. We think that existing Standards already demonstrate this by decisions such as the following:

(a) how property is classified – as inventories, as investment property, or property, plant and equipment – depends on how the entity uses those assets; and

(b) IAS 1 *Presentation of Financial Statements* allows an entity to present some financial information by function.

33. In addition, we note that AP 10F *Presentation and disclosure: scope and content* proposes to include in the *Conceptual Framework* guidance on how to classify and aggregate financial information based on shared qualities. We believe that the nature of an entity's business activities may affect which sets of shared qualities are likely to result in the most relevant and understandable classification and aggregation of financial information about the assets, liabilities, income and expense resulting from those activities.

34. With regard to disclosures, respondents suggested that:

(a) Entities should be required to make disclosures about their business model (for example, information about the nature of the entity's business activities, its strategy and the industry in which it operates). We agree that disclosures of this type may provide useful information to users of financial statements. However, any decision to require disclosures of this type would be made at the Standards-level.

(b) Entities should be encouraged to provide more entity-specific information (ie information that reflects the way in which an entity conducts its business activities). We note that consideration of the nature of an entity's business activities is already included in the IASB's tentative decision in June 2014 that 'disclosure requirements should seek to promote the disclosure of useful information that is entity-specific'.

Distinction between profit or loss and OCI

35. Some respondents suggested that the definition and content of profit or loss should reflect the entity's business model.

36. Some preparers who advocate a long-term business model suggested using the business model to identify short-term unrealised gains or losses or volatile information that should be reported in OCI.

Staff analysis

37. We interpret these comments as advocating that the distinction between profit or loss and OCI should be based on identifying items that are 'non-recurring', 'non-operating' or 'long-term'. We continue to think that these distinctions are difficult to define, apply and operationalise and do not support these approaches.

38. In June 2014, the IASB tentatively decided the following with regard to profit or loss and OCI.

> […] the *Conceptual Framework* should include a rebuttable presumption that all items of income and expense should be included in profit or loss unless the IASB concludes in a particular Standard that including an item of income and expense—or a component of such an item—in OCI would enhance the relevance of profit or loss as the primary source of information about an entity's performance for the period. […] One example […] is when the IASB concludes that one measurement basis is appropriate for an asset or a liability in the statement of financial position and another measurement basis is appropriate for profit or loss. In such cases, the resulting difference would be reported in OCI. *June 2014 IASB Update*

39. We think the IASB may consider the nature of an entity's business activities when the IASB is considering whether it is appropriate to use one measurement basis in the statement of financial position and a different measurement basis to determine the amounts reported in profit of loss. An example might be if there is uncertainty about the way in which the asset will ultimately contribute to cash flows. Hence, consideration of an entity's business activities may be relevant when deciding whether to present an item in OCI.

Distinction between liabilities and equity

40. Most co-operative organisations and their representative bodies ('co-ops') that responded to the Discussion Paper highlighted the specific circumstances of their co-op capital structure. They agreed with the suggestions in the Discussion Paper that:

    (a) the existing definition of equity should be retained; and

    (b) if no other instrument meets the definition of equity, treating the most subordinated class of financial instruments as if it were equity is appropriate. They thought that this exception would be a valid use of business model in making the financial statements more relevant.

Staff analysis

41. We think that the distinction between liabilities and equity should reflect the terms of the instrument. In some instances, the terms inserted in those instruments may be influenced by the nature of an entity's business activities. Understanding the nature of those activities may make it easier to understand why the terms were inserted, and to understand how they are intended to operate in practice and what their economic substance is. This may make it easier to identify and understand the rights, obligations and other claims created by the instruments, and to decide what information about them is most relevant to users, and how to provide a faithful representation of the instrument in an understandable way. However, we think that the nature of the entity's business activities should not lead to classification (as liability or equity) that contradicts the terms of the instrument.

Unit of account

42. Unit of account relates to the level of aggregation of rights or obligations when referring to recognition, measurement, derecognition, presentation and disclosure.

43. A few respondents suggested considering the business model when determining the unit of account.

Staff analysis

44. At the June 2014 meeting, the IASB tentatively agreed that the *Conceptual Framework* should include a list of factors to consider when determining the unit of account: cash flow dependency, ability to transact separately, substance of the transaction, economic characteristics and risks[3]. We think that consideration of these factors may be influenced by the nature of an entity's business activities.

Summary of analysis

45. The table below summarises whether we have identified a role for consideration of the nature of an entity's business activities in the areas discussed above.

Areas	**Have we identified a role for consideration of the nature of an entity's business activities in this area?**
Recognition of assets and liabilities	No
Measurement	Yes, it is one factor to be considered in selecting measurement bases.
Presentation and disclosure	Yes, we think it has a role in the following areas: • identifying shared qualities used to determine how to present information as discussed in AP 10F *Presentation and disclosure: scope and content*. • deciding how to provide information that is entity-specific.

[3] More information on these factors can be found in the unit of account paper discussed in June 2014.

Areas	Have we identified a role for consideration of the nature of an entity's business activities in this area?
Distinction between profit or loss and OCI	Yes, it is one factor to be considered in identifying cases when one measurement basis is appropriate in the statement of financial position and another measurement basis is appropriate for profit or loss.
Distinction between liabilities and equity	No
Unit of account	Yes, it is one factor to be considered when determining the unit of account.

Staff recommendations

Where consideration of the nature of an entity's business activities could play a role in standard-setting

46. We think that consideration of the nature of an entity's business activities is likely to improve the relevance of financial information. The likely areas are when considering measurement, determining the unit of account, distinguishing between profit or loss and OCI, and presentation and disclosure.

47. We think that the nature of an entity's business activities is less likely to play a role in other areas of standard-setting, for example, distinguishing between liabilities and equity.

What consideration of the nature of an entity's business activities means when applied to standard-setting

48. We do not think there is a single overarching 'business model' concept that could be usefully included in the *Conceptual Framework* because:

    (a) it is not relevant in all areas in financial reporting; and

    (b) different types of 'business model' notion might be needed in different areas of financial reporting.

49. In addition, we recommend not using the term 'business model' because it has been defined differently by different organisations.

50. Therefore we think that, where relevant, the *Conceptual Framework* should include a more tailored description of how the nature of an entity's business activities would affect a particular area of standard-setting. For example, when considering disclosures, we could specify that the IASB should require entities to consider the nature of their business activities to determine how to provide entity-specific information about the entity.

Questions

1) The staff recommend that the Exposure Draft of the revised *Conceptual Framework* should:

a) state that consideration of the nature of an entity's business activities is likely to improve the relevance of financial information.

b) describe for each area of standard-setting how the nature of an entity's business activities would affect that area of standard-setting. The IASB should tailor that description to each area affected, rather than provide a single over-arching description.

Do you agree?

2) The nature of an entity's business activities is likely to affect measurement, unit of account, the distinction between profit or loss and OCI, and presentation and disclosure more than it is likely to affect other areas covered by the *Conceptual Framework*. Do you agree?

Appendix A Summary of how various organisations have defined or explained 'business model'

A1. This appendix summarises how the IASB and other organisations have defined or explained the term 'business model'.

IASB

A2. IFRS 9 *Financial Instruments* does not define an entity's business model but notes the following:

(a) the entity's key management personnel are responsible for determining the objective of the business model;

(b) an entity's business model is not a choice but is instead a matter of fact that can be observed by the way an entity is managed and information is provided to its management;

(c) a single entity may have more than one business model for managing its financial instruments; and

(d) a business model is different from 'management's intentions', which can relate to a single financial instrument.

A3. Additional clarifications on how to assess an entity's business model in managing financial assets[4] are as follows:

(a) The business model, when relating to how financial assets are classified, is based on the cash flow realisation notion which refers to:

> (a) Actual management of financial assets in order to generate cash flows and create value for the entity – ie whether the likely actual cash flows will result primarily from the collection of contractual cash flows, sales proceeds or both.
>
> (b) The business model assessment should allocate financial assets to the measurement attribute that will

[4] November 2013: IASB Agenda reference 6A, FASB Agenda ref 249R *Financial Instruments: Classification and Measurement – Business model assessment: overall business model assessment*.

The additional clarification will be incorporated in the latest IFRS 9 that is planned to be issued in Q3 2014.

> provide the most relevant and useful information about how activities and risks are managed to create value.

(b) In regard to assessing financial assets, the IASB also tentatively decided that the business model will be 'assessed at a level that reflects (groups of) financial assets managed together to achieve a particular (common) objective.'

> (i) Therefore, the entity's business model for managing financial assets is often observable through particular activities that are undertaken to achieve the objectives of that business model.
>
> (ii) That objective should be an actual objective for managing assets, and the entity should not necessarily consider (or base its business model assessment on) every 'what if' scenario or worst-case scenario.
>
> (iii) Those business activities usually reflect the way in which the performance of the business model and underlying financial assets in that business model are evaluated and reported (ie key performance indicators) as well as the risks that typically impact the performance of the business model.

A4. A change in business model will occur only when an entity has either stopped or started doing something on a level that is significant to its operations – and that generally would be the case only when the entity has acquired or disposed of a business line.

International Integrated Reporting Council

A5. The International Integrated Reporting Council (IIRC)[5] has based its definition of an entity's business model on the purpose of an Integrated Report which is a communication document about how an 'organization's strategy, governance, performance, prospects, in the context of its external environment, lead to creation of value over the short, medium and long term'.

> An organization's business model is its system of transforming inputs, through its business activities, into

[5] International Integrated Reporting <IR> Framework was issued in December 2013.

> outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term.

Regulators

A6. The following regulators have explicitly referred to business model in their regulations or best practice documents.

(a) The Australian Securities & Investments Commission (ASIC) requires companies to explain their business model in prospectuses so that retail investors can assess the potential risks and returns associated with an investment in the company. Components of business models include the nature of the business, significant dependencies (eg key suppliers, distribution and customer channels), strategies and corporate structure.[6]

(b) UK FRC Governance Code 2012[7] describes an entity's business model as the basis on which the company generates or preserves value over the longer term.

Enhanced Disclosure Task Force from the Financial Stability Board

A7. The Enhanced Disclosure Task Force (EDTF), a group established by the Financial Stability Board (FSB), defines a business model as follows[8].

> A business model describes how an organisation creates, delivers, and captures value (economic, social, or other forms of value). The essence of a business model is that it defines the manner by which the business enterprise delivers value to customers and converts that value into

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[6] ASIC Regulatory Guide 228 *Prospectuses: Effective disclosure for retail investors* November 2011

[7] FRC The UK Corporate Governance Code https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.pdf September 2012

[8] The EDTF issued a report on 29 October 2012 with recommendations to improve bank risk disclosures in the areas of usability, risk governance and risk management, capital adequacy, liquidity and funding, market risk, credit risk and other risks. http://www.financialstabilityboard.org/publications/r_121029.pdf The EDTF comprises members from investors (users) and preparers of financial reports. In an updated report in July 2013, the EDTF noted that many banks from different geographical, size, accounting and regulatory environment have started to apply the recommendations from the October 2012 report (http://www.financialstabilityboard.org/publications/r_130821a.pdf).

profit. It describes how an enterprise is organised to best meet customer needs, be paid for doing so and make a profit.

EFRAG

A8. EFRAG, in a Research paper, thinks that a business model concept focuses on how an entity generates cash flows[9]. The Research paper suggests that financial reporting that reflects an entity's business model provides information about the generation of cash flows and the creation of value.

A9. The Research paper notes that entities create value in different ways, and the cash flow cycle often differs depending on the way the value is created. For example, some create value by holding or using assets to collect a rental type cash flow from those assets.

A10. The Research paper suggests that the following attributes of a business model could lead to different accounting:

(a) The length of the activity cycle: For example, whether the asset has been purchased and sold in a very short time.

(b) How inputs are used: For example are inputs used in the production process or sold without any change in their nature?

(c) How outputs are used to generate cash.

(d) The types of risks related to the activity.

(e) The degree of certainty in the generation of cash flows.

(f) The degree of capital intensity.

A11. The Research paper suggests that for accounting purposes, one would need to determine which attribute provides the most useful information to investors or analysts. However, it also questions whether alternative accounting treatments

[9] EFRAG published a research report in December 2013 seeking views on how to characterise a business model concept and why it should play a role in financial reporting. The comment period ended on 31 May 2014. http://www.efrag.org/Front/p206-2-272/Proactive---The-Role-of-the-Business-Model-in-Financial-Statements.aspx

should be permitted, so as to reflect the different business models (ie depending on how an entity generates value or cash flows on its assets and liabilities).

A12. The Research paper also suggests that the business model should continue to play a role in financial reporting, but not on an ad-hoc basis, which it suggests is what currently appears to happen. Therefore, the Research paper suggests that the *Conceptual Framework* should include a business model concept. The Research paper suggests some possible criteria for accounting standard setters to assess when the business model needs to be considered for standard-setting purposes.