

STAFF PAPER

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Project	Conceptual Framework		
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Purpose of the paper

1. This paper discusses whether any changes are needed to the proposed approaches to business activities and to long-term investment in the light of the comments received on the Exposure Draft *Conceptual Framework for Financial Reporting* ('the Exposure Draft').

Structure of the paper

2. This paper is structured as follows:
 - (a) staff recommendations (paragraph 4);
 - (b) business activities (paragraphs 5–19); and
 - (c) long-term investment (paragraphs 20–46).
3. Appendix A provides an extract on the implications of long-term investment from the Basis for Conclusions on the Exposure Draft.

Staff recommendations

4. The staff recommend that the Board, in the revised *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*), confirm the approaches to business

activities and to long-term investment proposed in the Exposure Draft. Specifically, the revised *Conceptual Framework*:

- (a) will discuss how the way in which an entity conducts its business activities may affect decisions about the unit of account, measurement, and presentation and disclosure but will not introduce business activities as an overarching concept that affects all areas of financial reporting;
- (b) will not comment on long-term investment as a business activity because discussion of implications of any particular type of business activity is most appropriately developed in individual Standards, rather than generically in the revised *Conceptual Framework*;
- (c) will not include specific measurement or presentation concepts related to long-term investment because the revised *Conceptual Framework* will provide sufficient concepts to assist the Board in making appropriate Standard-setting decisions on measurement and presentation, including decisions for long-term investments; and
- (d) will not supplement the discussion of the information needs of the primary users of financial statements with further discussion of information needs of long-term investors in the reporting entity because the revised *Conceptual Framework* will provide sufficient concepts for the Board to address appropriately the needs of all primary users of financial statements, including long-term investors.

Business activities

Proposals in the Exposure Draft¹

5. In developing the Exposure Draft, the Board formed the view that the nature of an entity's business activities plays different roles in different aspects of financial reporting. Accordingly, the Exposure Draft did not include a general discussion on

¹ Paragraphs 4.62(a)(iii), 6.54(a), 6.76-6.77, 7.10, 7.19, BCIN.28-BCIN.34

the role of a business model in financial reporting, but discussed how the way in which an entity conducts its business activities may affect:

- (a) the unit of account;
 - (b) measurement; and
 - (c) presentation and disclosure, including how to classify assets, liabilities and items of equity, income and expenses. Classification of items of income and expenses includes determining whether to include them in other comprehensive income (OCI) instead of in the statement of profit or loss.
6. The Board did not identify any situations in which consideration of an entity's business activities would be relevant to the recognition of assets and liabilities and noted that it is performing further research on the distinction between liabilities and equity.
7. The Exposure Draft did not use the term 'business model' because this term is used with different meanings by various organisations.

Summary of feedback

8. Just over half of the respondents commented on business activities. Almost all of them agreed that the way in which an entity conducts its business has a role to play in financial reporting. However, those respondents expressed different views on how overarching that role should be and how much guidance should be included in the *Conceptual Framework*.
9. Roughly one half of the respondents who commented on the proposals broadly agreed that business activities should be considered in some, but not all, aspects of standard-setting and broadly supported the proposals in the Exposure Draft. Some of them emphasised that:
- (a) The nature of an entity's business activities is one factor that the Board should consider in setting Standards, but other factors are equally or more important.

- (b) Business activities have a greater role to play in particular aspects of Standard-setting, such as measurement or presentation of income or expenses.
10. A few respondents did not support including a discussion of business activities in the revised *Conceptual Framework* and expressed the following views:
- (a) Consideration of business activities in Standard-setting may impair the comparability of financial statements.
 - (b) There are diverse views on how business activities should be reflected in Standard-setting and it is therefore premature to discuss business activities in the *Conceptual Framework* before further research is conducted.
 - (c) Consideration of business activities is Standards-level detail and should not be included in the *Conceptual Framework*.
11. The other respondents who commented on the proposals thought that the revised *Conceptual Framework* should give more prominence to business activities. Some of them argued that:
- (a) Business activities should be considered in all aspects of Standard-setting and should be embedded in the *Conceptual Framework* as an overarching concept.
 - (b) Business activities should play a greater role in Standard-setting than other considerations, for example the characteristics of an asset or a liability.
12. Many respondents did not seem to make a distinction between the terms ‘business model’ and ‘business activities’. Some respondents used the term ‘business activities’. Those respondents tended to agree with the proposals in the Exposure Draft. Other respondents used the term ‘business model’. Those respondents tended to think that the *Conceptual Framework* should give more prominence to that notion.
13. A few respondents asked the Board to clarify whether it ascribes different meanings to the terms ‘business model’ and ‘business activities’ and recommended that the Board should use consistent terminology to avoid confusion. In particular, they noted that IFRS 9 *Financial Instruments* uses the term ‘business model’ and were not clear

whether the Board means something different by the term ‘business activities’ in the Exposure Draft.

Staff analysis and recommendation

14. On the basis of the feedback received on business activities, the staff recommend that the Board should confirm the proposed approach. The feedback received on the Exposure Draft is consistent with the feedback on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the Discussion Paper) and has not provided the Board with any new input that could cause the Board to reconsider the proposed approach.
15. Specifically, most respondents agree that how an entity conducts its business activities has a role to play in financial reporting. About a half of the respondents agree with where the Board has proposed to consider that notion, that is in determining the unit of account and in setting measurement and presentation and disclosure requirements. The Board has already tentatively confirmed the proposals on unit of account and presentation and disclosure and Agenda Papers 10B *Measurement—redrafting the factors to consider in selecting a measurement basis* and 10C *Measurement: suggested redraft of parts of Chapter 6* for this month’s meeting discuss business activities as a factor in selecting a measurement basis. From the feedback received on the Exposure Draft, the staff have not identified any other areas where consideration of business activities may be relevant.
16. The staff do not agree that consideration of business activities would impair comparability of the financial statements. The staff note that entity’s business activities are a matter of fact and the proposed approach would result in any particular type of business activities being considered in the same manner in determining how the items are reflected in the financial statements.
17. Likewise, the staff do not agree that business activities should be given more prominence in the revised *Conceptual Framework* or should be introduced as an overarching concept. The staff think that in particular cases in standard-setting the way in which an entity conducts its business activities may be given more weight than other considerations. For example, that may be the case in selecting a measurement

basis for a particular asset or liability. However, consistently with the discussion in Agenda Papers 10B and 10C, the staff think that the Board will need to exercise judgement in deciding which considerations should be given more weight in particular circumstances.

18. The staff note the concerns raised by some respondents about the confusion that may arise about the terms ‘business activities’ and ‘business model’. To address those concerns, the Board could clarify in the Basis for Conclusions on the revised *Conceptual Framework* that:
- (a) the notion of business activities in the *Conceptual Framework* is a broad concept intended to assist the Board in setting Standards; and
 - (b) the notion of business model in IFRS 9 is one example of how the Board applied that concept in a particular standard-setting context.
19. For the following reasons, the staff continue to believe that the revised *Conceptual Framework* should use the term ‘business activities’ rather than the term ‘business model’:
- (a) As pointed out by some respondents to both the Discussion Paper and the Exposure Draft, various other organisations have adopted the term ‘business model’, with varying definitions. Adopting that term in the revised *Conceptual Framework* could lead to confusion with those definitions.
 - (b) Discussions by users of financial statements and by others about disclosure often use the term ‘business model’ to refer to a highly granular analysis of how the business operates. Such a granular analysis may be important for disclosure, but is much less likely to be appropriate for decisions about, for example, measurement. Adopting the term ‘business model’ in the revised *Conceptual Framework* could lead to a misperception that a similar level of granularity might be implied for all parts of the revised *Conceptual Framework*.

Question 1 for the Board

Does the Board agree with the staff recommendation to confirm the proposed approach to business activities in the revised *Conceptual Framework*? That is, the revised *Conceptual Framework* will discuss how the way in which an entity conducts its business activities may affect decisions about the unit of account, measurement and presentation and disclosure but will not introduce business activities as an overarching concept that affects all areas of financial reporting.

Long-term investment***Proposals in the Exposure Draft²***

20. The Exposure Draft did not include a specific discussion about:
- (a) long-term investment *by* the reporting entity, or
 - (b) the information needs of long-term investors *in* the reporting entity.
21. However, the Basis for Conclusions on the Exposure Draft included a discussion about the implications of long-term investment for standard-setting (see Appendix A). That discussion stated that:
- (a) the proposals in the Exposure Draft provide sufficient tools for the Board to make appropriate Standard-setting decisions if future projects consider:
 - (i) how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment;
or
 - (ii) whether such entities should report changes in the carrying amount of those investments (or liabilities) in the statement of profit or loss or OCI.
 - (b) the *Conceptual Framework* contains sufficient and appropriate discussion of primary users and their information needs, and the objective of general purpose financial reporting, to address appropriately the needs of long-term investors.

² Paragraphs BCIN.35-BCIN.44

22. In the Basis for Conclusions, the Board also stated that:
- (a) referring explicitly to any particular business activity would, inappropriately, embed Standards-level detail in the *Conceptual Framework*;
 - (b) the proposed changes to the objective of financial reporting clarify the need to provide information that helps investors to assess management’s stewardship of the entity’s resources;
 - (c) the Board’s decisions (including decisions on measurement) are driven by an assessment of what information would be useful to all investors;
 - (d) that there is no reason why current value measurements would be useful to short-term investors when they are not useful to long-term investors; and
 - (e) it is not the role of accounting Standards to encourage or discourage investments that have particular characteristics.
23. The invitation to comment on the Exposure Draft asked respondents whether they agreed with the Board’s conclusions on long-term investment.

Summary of feedback

24. Just under half of the respondents commented on long-term investment. Many of them agreed with the Board’s proposed approach. In particular, most standard-setters, accounting firms, accountancy bodies and regulators who commented on long-term investment agreed with the Board’s proposed approach. Some of them commented on, and specifically stated their support for, both aspects of the discussion, ie that the revised *Conceptual Framework* will contain sufficient discussion for the Board:
- (a) to make appropriate standard-setting decisions on measurement and presentation of long-term investments (or liabilities); and
 - (b) to address appropriately the needs of long-term investors.
25. Respondents who supported the Board’s proposed approach made the following comments about long-term investment:

- (a) the revised *Conceptual Framework* should not identify or discuss any particular type of business activity or business model. That would be embedding Standards-level detail in the revised *Conceptual Framework*;
 - (b) long-term investment can be undertaken with different objectives and the Board should therefore be careful not to identify long-term investment as a business activity or business model in its own right; and
 - (c) it would be very difficult, if not impossible, to determine which entities are more long-term-oriented and which are more short-term-oriented.
Allowing management to deem some activities as long-term and account for them differently would create an opportunity for manipulation.
26. Respondents who supported the Board’s proposed approach also noted that there is no evidence to suggest that information needs of long-term investors in a reporting entity are different from information needs of short-term investors in a reporting entity. They argued that as long as the objective of financial reporting is met, the needs of both long-term and short-term investors will be met. They also suggested that any additional information needs of a particular type of investor could be met by requiring specific disclosure as and when appropriate.
27. A few respondents also agreed explicitly with a statement in the Basis for Conclusions that it is not the role of accounting standards to facilitate any particular type of investment. Instead, accounting standards play their role by facilitating transparent financial reporting.
28. Some respondents supported the general direction of the Board’s proposed approach for the revised *Conceptual Framework* but suggested that the Board should:
- (a) further develop particular areas of the revised *Conceptual Framework*, for example recognition, measurement or presentation of information about financial performance, or give more prominence to the notions of stewardship or business model in order to assist the Board in making Standard-setting decisions on long-term investment;
 - (b) set accounting requirements for long-term investments (or liabilities) using the guidance provided in the revised *Conceptual Framework*. In particular, the Board should revisit the appropriateness of using current values for

measurement of long-term investments (or liabilities) and reporting changes in current values of such long-term investments (or liabilities) in the statement of profit or loss;

- (c) acknowledge in the revised *Conceptual Framework* that long-term investment may warrant special consideration by the Board in setting Standards—even if that would result in a different accounting outcome in only a limited number of cases.

29. Some respondents did not think that the revised *Conceptual Framework* as proposed would fully address the information needs of long-term investors or would assist the Board in making appropriate Standard-setting decisions on long-term investment.

They argued that:

- (a) the revised *Conceptual Framework* should discuss long-term investment business model or at least establish a more explicit commitment for the Board to consider such a business model in setting Standards; and
- (b) information needs of long-term investors are different from the information needs of short-term investors because long-term investors:
 - (i) are more interested in assessing stewardship and less interested in short-term market fluctuations; and
 - (ii) need information that is as free from measurement and outcome uncertainty as possible.

30. Although the Exposure Draft did not contain specific proposals on how to measure long-term investments (or liabilities), and on where to present changes in the carrying amount of long-term investments (or liabilities), some respondents commented on these topics:

- (a) some respondents stated that using current value measures and reporting changes in current values in the statement of profit or loss would not provide relevant information about long-term investment; and
- (b) other respondents stated that it would generally not be appropriate to measure long-term investments (or liabilities) at historical cost or to exclude changes in current values of long-term assets and liabilities from the statement of profit or loss. In their view, using current value measures

and reporting changes in those measures in the statement of profit or loss would provide better information about the asset's capacity to generate cash flows and a better indication of the return on investment and would assist in assessing stewardship.

31. A few respondents expressed support for one aspect of the Board's approach but not for the other. For example, the European Financial Reporting Advisory Group agreed that as long as the objective of financial reporting is met, information needs of all types of users will be met. However, they did not think that the revised *Conceptual Framework* as proposed would provide sufficient guidance on how to reflect long-term investment. In contrast, an accounting firm from Pakistan agreed that the *Conceptual Framework* provides sufficient tools to enable the Board to make appropriate Standard-setting decisions, including for the long-term investment business model. However, they argued that the revised *Conceptual Framework* did not contain sufficient and appropriate discussion of primary users and their information needs to address appropriately the needs of long-term investors.

Staff analysis and recommendation

32. In developing the Exposure Draft, the Board acknowledged that long-term investment and financing has attracted a great deal of attention from interested parties, including governments, in recent years. Accordingly, the Board specifically considered whether the revised *Conceptual Framework* would provide sufficient and appropriate tools to enable the Board to develop Standards that would result in useful information:
- (a) about long-term investment *by* the reporting entity, or
 - (b) for long-term investors *in* the reporting entity.

Referring to long-term investment in the Conceptual Framework

33. The Board proposed in the Exposure Draft that the *Conceptual Framework* should not refer to any particular business activity. The Board explained in the Basis for Conclusions that doing so would inappropriately embed Standards-level detail in the *Conceptual Framework*.

34. Many respondents to the Exposure Draft supported that approach. In addition, some respondents stated that long-term investment is not a single homogeneous business activity in its own right. This is because long-term investment can be undertaken with different objectives. Besides, it would often be difficult if not impossible to determine from the outset whether a particular investment will be held for a medium or long term.
35. The staff agree with those comments. The staff recommend that, consistently with the approach proposed in the Exposure Draft, the Board does not comment on long-term investment as a business activity in the revised *Conceptual Framework* because discussion of the implications of any particular type of business activity is most appropriately developed in individual Standards, rather than generically in the revised *Conceptual Framework*. Also consistently with the proposed approach, the staff think that the related discussion in the Basis for Conclusions should be retained.

Setting measurement and presentation requirements for long-term investment

36. The staff note that the main concerns raised by interested parties about long-term investment relate to measurement of long-term assets and long-term liabilities and presentation of income and expenses arising on those items. Specifically, some interested parties have argued that measuring long-term assets and long-term liabilities at current values and presenting changes in those values in the statement of profit or loss would not provide useful information. In contrast, some other respondents argued that historical cost would not provide useful information about long-term assets and long-term liabilities and that changes in current values of those items should not be excluded from the statement of profit or loss.
37. The proposals in the Exposure Draft already require the Board to consider in selecting a measurement basis the nature of an entity's business activities and how a particular asset or liability will contribute to the entity's cash flows. At the April 2016 meeting, the Board tentatively decided to build on the proposals on measurement in the Exposure Draft and improve the discussion without fundamentally reconsidering the proposals. Consistently with that tentative decision, Agenda Papers 10B and 10C for this month's meeting provide a revised discussion about how business activities should be taken into account in selecting a measurement basis.

38. Likewise, at the July 2016 meeting, the Board tentatively confirmed the proposal in the Exposure Draft that only changes in current values of assets and liabilities can be included in OCI. In selecting a current value measurement basis, the Board will have already considered an entity's business activities. The Board has also tentatively decided that it may be appropriate to include items of income and expense in OCI instead of profit or loss when doing so enhances the relevance or faithful representation of the information provided in profit or loss for the period. That would enable the Board to require presentation of particular changes in current values in OCI if the Board concludes that doing so would enhance the relevance or faithful representation of information for a particular business activity.
39. Accordingly, the staff are of the view that by applying the concepts in the revised *Conceptual Framework* the Board would give sufficient and appropriate consideration to an entity's business activities, including those that involve long-term investment, when relevant in setting measurement and presentation requirements. The staff also note that many respondents to the Exposure Draft, including most standard-setters, accounting firms, accountancy bodies and regulators who commented on long-term investment agreed with that approach.
40. The staff therefore recommend that the Board confirms the proposed approach and does not include in the revised *Conceptual Framework* specific measurement or presentation concepts related to long-term investment because the revised *Conceptual Framework* will provide sufficient concepts to assist the Board in making appropriate Standard-setting decisions on measurement and presentation, including decisions for long-term investments. Consistently with the approach in the Exposure Draft, the related discussion in the Basis for Conclusions would be retained.
41. Some interested parties have asked the Board to develop Standards that set accounting requirements for long-term investments (or liabilities) using the guidance provided in the revised *Conceptual Framework*. In particular, they suggested that the Board should revisit existing measurement and presentation requirements for long-term investments (or liabilities). However, as discussed in the Exposure Draft and noted by the Board at its April 2016 meeting, the Board will not automatically change existing Standards as a result of the changes to the *Conceptual Framework*. Instead, any decision to change an existing Standard would require the Board to go through its

normal due process for adding a project to its agenda and developing an Exposure Draft and an amendment to that Standard.

Information needs of long-term investors

42. Some interested parties continue to suggest that the Board focusses too much on the information needs of short-term investors and that information needs of long-term investors are different. In particular, they argue that the Board makes excessive use of current value measurements and that current value measures, especially reporting changes in those measures in the statement of profit or loss, are more relevant for short-term investors rather than long-term investors.
43. However, as noted by the Board in developing the Exposure Draft, both short-term and long-term investors are considered to be primary users of financial statements. Accordingly, in developing Standards, the Board will consider information needs of all those investors. That said, on the basis of extensive consultation on this and other projects, the Board has no reason to believe that information needs of long-term and short-term investors are different. Specifically, the Board has no reason to believe that current value measures, or reporting changes in those measures in the statement of profit or loss, would result in information that is more useful for short-term investors than for long-term investors. In addition, the Board noted that any additional information needs of any particular group of users of financial statements could be met via disclosure.
44. Many respondents to the Exposure Draft agreed with the Board's proposed approach. Accordingly, the staff recommend that the Board confirms that approach and does not supplement the discussion of the information needs of the primary users of financial statements in the revised *Conceptual Framework* with further discussion of information needs of long-term investors in the reporting entity because the revised *Conceptual Framework* will provide sufficient concepts for the Board to address appropriately the needs of all primary users of financial statements, including long-term investors. Consistently with the approach in the Exposure Draft, the related discussion in the Basis for Conclusions would be retained.

Role of accounting standards

45. Some interested parties continue to suggest that accounting standards, and in particular the use of current value measures and reporting changes in those measures in the statement of profit or loss, could have an unfavourable effect on entities' business practices and investment decisions and discourage long-term investment and that this could in turn hamper economic growth.
46. However, the Board has consistently stated that it is not the role of accounting standards to encourage or discourage investments that have particular characteristics. Instead, standard-setting decisions are driven by the usefulness of resulting information. The Board has also stated that it makes an important contribution to the promotion of long-term investment by producing Standards that are intended to require transparent financial reporting. Transparent financial reporting helps market participants to make better economic decisions. It also makes investment more attractive to capital providers and provides more useful inputs for assessment of stewardship.

Question 2 for the Board

Does the Board agree with the staff recommendation to confirm the approach to long-term investment as proposed in the Exposure Draft, specifically that the *Conceptual Framework* will not:

- (a) comment on long-term investment as a business activity;
- (b) include specific measurement or presentation concepts related to long-term investment; and
- (c) supplement the discussion of the information needs of the primary users of financial statements with further discussion of information needs of long-term investors in the reporting entity?

Appendix A—Implications of long-term investment—Extract from the Basis for Conclusions on the Exposure Draft (paragraphs BCIN.35-BCIN.44)

BCIN.35 Long-term investment, and long-term financing, is a subject that has attracted a great deal of attention from governments in recent years. Governments have indicated that encouraging long-term investment is one important tool to promote economic growth. Consequently, when developing the Exposure Draft, the IASB considered whether the *Conceptual Framework* will provide the IASB with sufficient and appropriate tools to enable it to consider the following questions when developing new Standards:

- (a) Does the time horizon for investments by a reporting entity have any implications for standard-setting decisions (see paragraphs BCIN.36–BCIN.38)?
- (b) Do long-term investors in a reporting entity need different information from short-term investors (see paragraphs BCIN.39–BCIN.43)?

Paragraph BCIN.44 comments on the role of accounting standards in relation to promoting long-term investment.

Long-term investment as a business activity

BCIN.36 Some have suggested that the IASB should identify long-term investment as a particular type of business activity (or business model), and develop specific measurement and presentation and disclosure requirements for entities conducting that business activity. Some commentators expressing those views have suggested that:

- (a) entities should not use current value measurements for their long-term investments (and for their liabilities). They should use either cost-based measurements or measurements updated using long-term estimates and determine any impairment loss by using an entity-specific measure (such as value in use), instead of a market-based measure (such as fair value).
- (b) if current value measurements are used, remeasurements should be reported in other comprehensive income (OCI), instead of in the statement of profit or loss. Furthermore, on disposal, the total gain or loss should be reclassified ('recycled') at that date from the accumulated OCI to the statement of profit or loss.

BCIN.37 The Exposure Draft proposes that one factor to be considered when selecting a measurement basis for an asset or a liability (and related income and expenses) is how the asset or the liability contributes to future cash flows. This depends, in part, on the nature of the business activities being conducted. This factor would also be considered in determining whether income and expenses should be included in OCI. The IASB concluded that the discussion on this factor in the Exposure Draft provides sufficient tools to enable the IASB to make appropriate standard-setting decisions if future projects consider:

- (a) how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment; or
- (b) whether such entities should include changes in the carrying amount of those investments (or liabilities) in the statement of profit or loss or in OCI.³

BCIN.38 For the following reasons, the IASB proposes that the *Conceptual Framework* should not refer explicitly to the business activity of long-term investment:

- (a) referring explicitly to any particular business activity would, inappropriately, embed Standards-level detail in the *Conceptual Framework*.
- (b) the *Conceptual Framework* does not refer to any other particular business activity. It is not obvious why it should refer to this one.

³ The IASB has no current project to consider how such entities should measure their long-term investments or their liabilities (other than insurance contract liabilities), nor any project to consider whether they should include remeasurements in the statement of profit or loss or in other comprehensive income (OCI).

Information needs of long-term investors

BCIN.39 Some commentators have suggested that the *Conceptual Framework* should emphasise the information needs of long-term investors, and that their information needs may differ from those of short-term investors. These commentators have expressed the view that:

- (a) the IASB focuses too much on the needs of short-term investors.
- (b) the IASB gives too much weight to the needs of potential investors and not enough weight to the needs of existing long-term investors. Those existing investors own the reporting entity and bear the residual risks of ownership. Hence, they need information that helps them to assess management's stewardship of the entity's resources.
- (c) the IASB makes excessive use of current value measurements, particularly market-based current measurements, such as fair value, and those measurements are more relevant to short-term investors than to investors who are interested in long-term value creation.
- (d) excessive use of current value measurements (especially for long-term investments), and recognition of unrealised gains in the statement of profit or loss, may:
 - (i) lead to dividend distributions that are excessive, imprudent, volatile and not in the best interest of long-term investors;
 - (ii) lead to inflated management remuneration; and
 - (iii) encourage short-termist behaviour and financial engineering, and discourage long-term investment.

BCIN.40 For the following reasons, the IASB disagrees with the views expressed in paragraph BCIN.39:

- (a) the IASB does not place more emphasis on the needs of short-term investors than on the needs of long-term investors. Both long-term investors and short-term investors are considered to be primary users of financial statements.
- (b) the *Conceptual Framework* identifies both existing and potential investors as primary users of financial statements. Furthermore, on the basis of extensive discussions with users in this project and many others, the IASB has no reason to think that existing investors need information that differs significantly from the information needed by potential investors. In addition, the changes to the objective of financial reporting proposed in the Exposure Draft clarify the need to provide information that helps investors to assess management's stewardship of the entity's resources (see paragraphs BC1.6–BC1.10).
- (c) when the IASB has decided to require, or permit, current value measurements, that has not been because of a belief that those measurements would be particularly useful to short-term investors. Indeed, when long-term investors do not need the information provided by current value measurements, there is no reason why short-term investors would need that information either. Instead, the IASB's decisions are driven by an assessment of what information is most likely to be useful to all investors. Under the proposals in Chapter 6 of the Exposure Draft, this would continue to be the case.
- (d) in the IASB's view, accounting information (such as reported profit) is not, and should not be, the sole determinant of distributions of dividends and bonuses. Distribution policy is affected by many other factors, such as the entity's financing needs, the risks faced by the entity, legal constraints and (in the case of bonus decisions) remuneration policy and incentive arrangements. These factors are likely to differ by entity, by country and over time. It would be neither desirable nor feasible for the IASB to attempt to factor them into its standard-setting decisions. Paragraph BCIN.44 contains comments on the role of accounting standards and possible effects on particular forms of behaviour.

BCIN.41 For these reasons, the IASB has concluded that the *Conceptual Framework* contains sufficient and appropriate discussion of primary users and their information needs, and on the objective of general purpose financial reporting, to address appropriately the needs of long-term investors.

BCIN.42 If the information needs of short-term investors and long-term investors were different, the IASB would need to decide whether to attempt to meet the needs of both groups, or whether to focus on only one of those groups. The IASB believes that there is no reason why short-term investors would need information that is not also needed by long-term investors.

BCIN.43 Conceivably, long-term investors may need some disclosure that is not also needed by short-term investors; for example, long-term investors may have more extensive needs for information to support decisions to

vote on, or otherwise influence, management's actions. However, the IASB concluded that, to help it to identify what disclosures it should require in particular Standards, there is no need to insert in the *Conceptual Framework* a specific reference to the needs of long-term investors. In addition, when the IASB undertakes projects to develop Standards, it routinely seeks input and feedback from investors, including long-term investors, to help ensure that it understands what information they need.

Role of accounting standards

BCIN.44 The IASB wishes to emphasise the role of accounting standards in relation to promoting long-term investment:

- (a) the IASB makes an important contribution to the promotion of long-term investment by producing Standards that are intended to require transparent financial reporting. This is a precondition for the healthy and efficient functioning of capital markets. Transparent financial reporting helps participants in capital markets to make more efficient and informed resource allocation and other economic decisions, and makes investment more attractive to capital providers (investors and lenders). It also provides more useful inputs for an assessment of stewardship.
- (b) it is not the role of accounting standards to encourage or discourage investments that have particular characteristics. Instead, standard-setting decisions (such as which measurement basis to adopt in particular cases) are driven by the usefulness of the resulting information, so that the information is relevant and is a faithful representation of what it purports to represent.