《論　文》

Transition of the Conceptual Framework in the International Accounting Standards Board

ERIKO MARUOKA

キーワード

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1. Introduction

In 2004, the International Accounting Standards Board (IASB) decided to work with the Financial Accounting Standards Board (FASB) to revise the Conceptual Framework. In 2010, as a result of the collaboration, the IASB and the FASB revised and published the "Conceptual Framework". However, since then, the Conceptual Framework has not been further revised. In letter to the IASB's Agenda Consultation 2011, several requests were made to the IASB to resume the Conceptual Framework project. Therefore, in 2012, the IASB decided to restart the Conceptual Framework project on its own, and in July 2013, the discussion paper "Review of the Conceptual Framework for Financial Reporting"(hereinafter referred to as DP [2013]) was announced.

According to the DP [2013], commenters on the Agenda Consultation 2011 identified financial performance reports (including other comprehensive income and recycling) as a priority topic to be addressed by the IASB (DP, 8.3), because the IASB lacks clarity about the profit or loss and the role of other comprehensive income in measuring and reporting corporate performance and about the interrelationship between profit or loss and other comprehensive income (especially the concept of recycling) is unclear (DP, 8.4). Then, in May 2015, the Exposure Draft "Conceptual Framework for Financial Reporting" was published, and in March 2018, "Conceptual Framework for Financial Reporting" (hereinafter referred to as "Revised Conceptual Framework") was published.

According to accounting standards in Japan, all other comprehensive income items are recycled. However, in International Financial Reporting Standards (IFRS), not all other comprehensive income items are recycled. Therefore, as a problem in the IASB, although it is necessary to measure and display profit or loss, it is unclear what is the profit or loss required in the process of calculating comprehensive income, because the current IFRS does not have a clear framework for accounting for other comprehensive income items and recycling and that other comprehensive income items include both recycled and nonrecycled items. Therefore, this study traces the transition of the Conceptual Framework in the IASB and examines how the aforementioned problems are addressed in the Revised Conceptual Framework.

2. Review of the Conceptual Framework at the International Accounting Standards Committee

With globalization of corporate activities, borderless securities market, and diversification of economic transactions, it is imperative to ensure international comparability in companies' financial statements. Therefore, the International Accounting Standards Committee (IASC) was established in 1973, which led to the creation of the International Accounting Standards (IAS). The IASC aimed to develop the accounting standards needed for high quality, comparable financial information in the capital markets to help its participants in decision making. The IASC was reorganized as the IASB in 2001 to create IFRS. The IASB also aimed to create high quality, comprehensible international accounting standards.

In 1989, the IASC published a Conceptual Framework entitled "Framework for the Preparation and Presentation of Financial Statements" (hereinafter referred to as the IASC [1989] Conceptual Framework). The IASC [1989] Conceptual Framework defines the elements directly related to the measurement of financial position on the balance sheet as assets, liabilities, and equity. In addition, the elements directly related to the measurement of business results in the income statement are income and expenses (para.47). Additionally, the IASC [1989] Conceptual Framework defines each element. An asset is "a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise" (para.49), and a liability is "a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits" (para.49). Equity is "the residual interest in the assets of the enterprise after deducting all its liabilities" (para.49).

Income related to the measurement of operating results is "increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants" (para.70). Expenses, in contrast, are "decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants" (para.70). The definition of income encompasses both revenue and gains. "Revenue arises in the course of the ordinary activities of an enterprise and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent" (para.74). "Gains include, for example, those arising from the disposal of noncurrent assets" (para.76). "The definition of income also includes unrealized gains; for example, those arising from the revaluation of marketable securities and those resulting from increases in the carrying amount of long term assets" (para.76). "When gains are recognized in the income statements, they are usually displayed separately because the knowledge can be used for economic decision making. Gains are often reported as net of related expenses" (para.76). "The definition of expenses encompasses losses and those expenses that arise in the course of ordinary activities of the enterprise"(para.78), "such as cost of sales, wages and depreciation (para.78). Expenses usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment" (para.78).

"Losses include those resulting from disasters such as fire and flood, and those arising from the disposal of noncurrent assets" (para.80). "The definition of expenses also includes unrealized losses, for example, those arising from the effects of increases in the rate of exchange of a foreign currency with respect to the borrowings of an enterprise in that currency" (para.80). "When losses are recognized in the income statement, they are usually displayed separately because its knowledge is useful for economic decision making. Losses are often reported as net of related income" (para.80).

Therefore, assets and liabilities in the IASC [1989] Conceptual Framework are defined from the asset and liability view. Accordingly, income and expenses are defined according to increase or decrease in assets and liabilities. Therefore, the profit and loss as the difference between the net assets at the beginning and the end of the period is same as that obtained by deducting expenses from the profit (Okada [2005] p. 115).

When the IASC was reorganized as the IASB in 2001, the IASB adopted the IASC [1989] Conceptual Framework.

3. Review of the Exposure Draft "The Conceptual Framework for Financial Reporting" at the IASB

In 2004, the IASB decided to collaborate with the FASB to revise the Conceptual Framework. In 2010, as a result of the joint project, the IASB and FASB published a partially revised "The Conceptual Framework for Financial Reporting." However, since then, the Conceptual Framework has not been revised further. In letter to the IASB's Agenda Consultation 2011, several requests were made to the IASB for resumption of the Conceptual Framework project. Therefore, in 2012, the IASB decided to resume the Conceptual Framework project on its own, and in July 2013, a discussion paper "A Review of the Conceptual Framework for Financial Reporting" (hereinafter referred to as DP [2013]) was announced.

According to the DP [2013], respondents to the IASB's Agenda Consultation 2011 identified that "the IASB should address the reporting of financial performance, including the use of other comprehensive income and recycling, as a priority topic" (DP, 8.3), because of a lack of clarity on the roles of profit or loss and other comprehensive income when measuring and reporting an entity's performance. This implied that other comprehensive income is perceived as a "dumping ground" for anything controversial. Moreover, "the interaction between profit or loss and other comprehensive income is unclear, especially the notion of recycling and when or which other comprehensive income items should be recycled" (DP, 8.3). In May 2015, the Exposure Draft "Conceptual Framework for Financial Reporting" (hereinafter referred to as the Exposure Draft) was published.

3－1. Examination of the Discussion Paper "Review of the Conceptual Framework for Financial Reporting

DP [2013] recognized that "The IASB has previously acknowledged that many investors, creditors, preparers and others view profit or loss as a useful performance measure and that 'profit or loss' as a subtotal or a phrase is deeply ingrained in the economy, business and investors' minds" (DP, 8.19) and "the IASB's preliminary view is that the Conceptual Framework should require a profit or loss total or subtotal that also results, or could result, in some items of income or expense being recycled" (DP, 8.26). Therefore, DP [2013] proposed an approach to maintain the concept of profit or loss and recycling. DP [2013] stated that it has not sought to define or directly describe profit or loss. Given the broad range of items included in profit or loss, this DP proposed distinguishing between profit or loss and other comprehensive income items by describing the types of items that could be recognized in other comprehensive income, rather than what could be recognized in profit or loss (DP, 8.35); in other words, treating profit or loss as the default category (DP, 8.35).

In contrast, the majority of post-DP [2013] commenters agreed that profit or loss is the primary source of information about a company's performance, and it is subtotaled or totaled in the Conceptual Framework (IASB [2014], Agenda ref 10B, para.1). However, most commenters objected to treating profit or loss as the default category without defining profit or loss in the Conceptual Framework as it is (IASB [2014], Agenda ref, 10I, para.3). The IASB argued that a better definition and purpose of profit or loss should be stated (IASB [2014], Agenda ref, 10I, para.3).

DP [2013] proposed three approaches to other comprehensive income and recycling. Approach 1 was a prohibit recycling, approach 2A was a narrow approach to other comprehensive income, while approach 2B was a broad one. Then, the other comprehensive income items were classified into bridging items, mismatched remeasurements, and transitory remeasurements. As IFRS has a mechanism in which profit or loss is not fixed unless other comprehensive income is determined, DP [2013] may have attempted to describe the type of other comprehensive income items. However, DP [2013] did not clearly explain these three types of other comprehensive income items.

Most of the commenters on DP [2013] broadly preferred other comprehensive income and supported the flexibility in the use of other comprehensive income (IASB [2014], Agenda ref, 10I, para.3). Although these people need not discuss the types of items that the IASB includes in the other comprehensive income, they should use the other comprehensive income and recycle for all or some of the other comprehensive income items (IASB [2014], Agenda ref, 10B, para.1). In response to the comments, the IASB instructed staff to develop more advanced guidance when the IASB uses other comprehensive income, rather than describe the types of items that the other comprehensive income can recognize (IASB [2014], Agenda ref, 10B, para.24).

3－2. Review of the Exposure Draft "Conceptual Framework for Financial Reporting"

Considering the comments on DP [2013], the IASB published the Exposure Draft "Conceptual Framework for Financial Reporting" in May 2015.

In the Exposure Draft, "In order to communicate information about financial performance more efficiently and effectively, income and expenses in the statement(s) of financial performance are classified into either: (a) the statement of profit or loss, which includes a total or subtotal for profit or loss;

or (b) other comprehensive income" (para.7.19). It then states, "The purpose of the statement of profit or loss is to: (a) depict the return that an entity has made on its economic resources during the period; and (b) provide information that is helpful in assessing prospects for future cash flows and in assessing management's stewardship of the entity's resources" (para.7.20). Therefore, "income and expenses included in the statement of profit or loss are the primary source of information about an entity's financial performance for the period" (para.7.21).

The Exposure Draft states that there is an estimate that all income and expenses are included in the statement of profit or loss, and that this estimate cannot be disproved for the following: (a) income or expenses related to assets and liabilities measured at historical cost; and (b) components of income or expenses related to assets and liabilities measured at current values if the components are separately identified and of the type that would arise if the related assets and liabilities were measured at historical cost. For example, if an interest-bearing asset is measured at a current value and if interest income is identified as one component of the change in the carrying amount of the asset, then that interest income should be included in the statement of profit or loss (para.7.23).

Alternatively, "the presumption that all income and all expenses will be included in the statement of profit or loss can only be rebutted if: (a) the income or expenses (or components of them) relate to assets or liabilities measured at current values and are not of the type described in paragraph 7.23 (b); and (b) excluding those income or expenses (or components of them) from the statement of profit or loss would enhance the relevance of the information in that statement for the period" (para.7.24). "When this is the case, those income or expenses (or components of them) are included in other comprehensive income" (para.7.24). The Exposure Draft is the first to limit the items that need to be determined whether to include in profit or loss or to intervene in other comprehensive income once to "revaluation difference based on present value" (Yoneyama [2015] p.71). Thus, in the Exposure Draft, certain income and expenses should be included in the other comprehensive income items if excluding certain income and expenses from the income statement would increase the relevance of the income statement, as it is supposed to be. Regarding the recycling of items included in the other comprehensive income, the Exposure Draft states that "if income or expenses are included in other comprehensive income in one period, there is a presumption that it will be reclassified into the statement of profit or loss in some future period. That reclassification occurs when it will enhance the relevance of the information included in the statement of profit or loss for that future period" (para.7.26). The following is an example of where these estimates can be disproved : "the presumption that such a reclassification will occur could be rebutted, for example, if there is no clear basis for identifying the period in which reclassification would enhance the relevance of the information in the statement of profit or loss. If no such basis can be identified, this may indicate that the income or expenses should not be included in other comprehensive income" (para.7.27). Thus, the Exposure Draft reflects the IASB's tentative decisions made earlier based on the comments and opinions of the comment submitters after the publication of DP [2013]. The Exposure Draft mainly refers to the items that can be disproved or not.

In publishing the Exposure Draft, the rationale for the conclusion was as follows: "In addition, in developing proposals for the use of other comprehensive income, the IASB has considered the current and proposed use of other comprehensive income in Standards. The IASB notes that whereas each use of other comprehensive income has an explanation, there is no single conceptual basis that underlies all of those cases" (BC7.35). Therefore, "Accordingly, the IASB decided that it is not feasible or appropriate to attempt to define, or precisely describe, in the Conceptual Framework when an item of income or expenses should be included in the statement of profit or loss or other comprehensive income. Instead,the IASB proposes to include in the Conceptual Framework high level guidance on this topic and on subsequent reclassification" (BC7.36).

The rationale for the conclusion is that defining a framework for deciding what items should be included in other comprehensive income item is not feasible because there is no single conceptual basis for the other comprehensive income item. Because, as discussed in the previous section, the IASB does not have a clear framework for other comprehensive income items and recycling; hence, there is no single conceptual basis for other comprehensive income items. Additionally, as the IASB does not consider the realization of profits as important, the criteria for determining whether or not to recycle are not because of the realization of profits, but whether recycling is appropriate for the purpose. It is the standard, although it is not shown what is suitable for the purpose.

The IASB does not define profit or loss as a component of financial statements in the Conceptual Framework, but IAS 1 defines profit or loss. However, the definition in IAS 1 merely indicates a formula[i]. After the publication of DP [2013], most commenters opposed the treatment of profit or loss as the default category without defining profit or loss in the conceptual framework as it is (IASB [2014], Agenda ref, 10I, para.3). The IASB states that a better definition and purpose of profit or loss should be stated (IASB [2014], Agenda ref, 10I, para.3). However, the basis for the conclusion of the Exposure Draft is that "the IASB did not think that a robust and appropriate definition of profit or loss would be feasible for the Conceptual Framework" (BC7.41). The IASB's inability to define profit or loss in the Conceptual Framework is because in the IASB, profit or loss is profit or loss within the framework of comprehensive income. Tokuga [2014] claimed that for profit or loss to gain status as an element, an independent meaning that is not included in comprehensive income calculation needs to be assigned (Tokuga [2014] p. 13).

4. Overview of the Revised Conceptual Framework

Against this background, the IASB published the "Conceptual Framework for Financial Reporting" in March 2018. (Hereafter referred to as the Revised Concept Framework.) This section examines the contents of the revised concept framework.

In the Revised Conceptual Framework, the elements of financial statements are defined as follows. An asset is defined as a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits (Table 4.1—The elements of financial statements). A liability is defined as a present obligation of the entity to transfer an economic resource as a result of past events (Table 4.1—The elements of financial statements). Equity is defined as the residual interest in the assets of the entity after deducting all its liabilities (Table 4.1—The elements of financial statements). Income is defined as increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims (Table 4.1—The elements of financial statements). Expenses are defined as decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims (Table 4.1—The elements of financial statements).

The Revised Conceptual Framework defines the elements of financial statements as described earlier, and the definitions of income and expenses as follows: "Transactions that result in income and expenses also cause changes in assets and liabilities. Consequently, identifying income and expenses necessarily leads to identifying which assets and liabilities have changed. The Board and other standard-setters have found over many years that it is more effective, efficient and rigorous to define assets and liabilities first and to define income and expenses as changes in assets and liabilities, instead of trying to define income and expenses first and then describe assets and liabilities as by-products of the recognition of income and expenses" (BC4.94(c)).

In other words, it is more effective to define assets and liabilities first, followed by income and expenses, rather than defining income and expenses first. Additionally the Revised Conceptual Framework states the importance of information on revenues and expenses as follows: "Income and expenses are the elements of financial statements that relate to an entity's financial performance. Users of financial statements need information about both an entity's financial position and its financial performance. Hence, although income and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities" (para.4.71).

The definitions of revenue and expense have not substantially changed from the definitions in the Conceptual Framework in 2010. Additionally, as income and expenses are defined by fluctuations in assets and liabilities, it is based on the asset and liability view.

The financial statements for which information is provided include the statement of financial position and financial performance. The statement of financial position records recognizing assets, liabilities and equity, while the statement of financial performance records the income and expenses (para.3.3 (a)(b)).

Regarding the recognition of assets or liabilities, the Revised Conceptual Framework states the following: "An asset or liability is recognised only if recognition of that asset or liability and of any resulting income, expenses or changes in equity provides users of financial statements with information that is useful, ie with: (a) relevant information about the asset or liability and about any resulting income, expenses or changes in equity; and (b) a faithful representation of the asset or liability and of any resulting income, expenses or changes in equity" (para5.7). An asset or liability will only be recognized if the asset or liability and its consequent changes in income, costs and equity provide useful information to the user of the financial statements (Yamada [2019]]. p.59).

The Revised Concept Framework describes the measurement basis as follows: "Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature—for example, historical cost, fair value or fulfilment value —of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses" (para.6.1). Furthermore, the following description is given for the basis of measurement: "Consideration of the qualitative characteristics of useful financial information and of the cost constraint is likely to result in the selection of different measurement bases for different assets, liabilities, income and expenses" (para6.2)[ii]. In other words, "more than one measurement basis is needed for an asset or liability and for related income and expenses to provide relevant information that faithfully represents both the entity's financial position and its financial performance" (para.6.83).

Regarding the presentation and disclosure of revenues and expenses, the Revised Conceptual Framework states the following: "Income and expenses are classified and included either: (a) in the statement of profit or loss; or (b) outside the statement of profit or loss, in other comprehensive income" (para.7.15). The importance of profit or loss is stated in the Revised Conceptual Framework as follows: "Because the statement of profit or loss is the primary source of information about an entity's financial performance for the period, all income and expenses are, in principle, included in that statement. However, in developing Standards, the Board may decide in exceptional circumstances that income or expenses arising from a change in the current value of an asset or liability are to be included in other comprehensive income when doing so would result in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the entity's financial performance for that period" (para7.17). Additionally , the Revised Conceptual Framework states the following: "In principle, income and expenses included in other comprehensive income in one period are reclassified from other comprehensive income into the statement of profit or loss in a future period when doing so results in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the entity's financial performance for that future period. However, if, for example, there is no clear basis for identifying the period in which reclassification would have that result, or the amount that should be reclassified, the Board may, in developing Standards, decide that income and expenses included in other comprehensive income are not to be subsequently reclassified" (para7.19).

The Revised Conceptual Framework states that, in principle, all income and expenses are included in the statement of profit or loss because it is the main source of information about a company's financial performance for the period. However, under exceptional circumstances, the framework may include income or expenses arising from changes in the current value of an asset or liability in other comprehensive income. Revenues and expenses included in other comprehensive income during a reporting period may be recycled so that the income statement provides relevant information about the company's financial performance for that period to provide a more faithful representation of, in principle, recycling from other comprehensive income to the income statement in the future. However, if there is no clear basis for identifying the period during which recycling has such consequences, or the amount to be recycled, and included in other comprehensive income when preparing the IASB or IFRS. One may decide not to recycle any of the revenues and expenses. Thus, the Revised Concept Framework does not have the perspective of recognizing or recycling other comprehensive income considering the concept of profit as financial performance (Fujii [2019a] p. 43).

The basis for the conclusions in the Revised Conceptual Framework states the following: "the Board concluded that it was not possible to develop a robust conceptual definition of profit or loss or of other comprehensive income or a prescriptive list of all categories of items that are most appropriately included in the statement of profit or loss. Nevertheless, the 2018 Conceptual Framework introduces for the first time guidance on when it might be appropriate for the Board to include income or expenses in other comprehensive income. The Board concluded that introducing guidance on this topic was a significant improvement" (BC7.20). Thus the Revised Concept Framework does not define profit or loss.

5. Conclusion

This study traced the transition of the Conceptual Framework in the IASB. The Revised Conceptual Framework acknowledges the importance of the statement of profit or loss but suggests that other comprehensive income may not be recycled. Additionally, although the elements of the financial statements are defined, the profit or loss is not. Classification into other comprehensive income and the presence or absence of recycling is assumed to be conducted from the viewpoint of relevant information and faithful representation, but the expression of relevant information is ambiguous.

If the bottom line profit is comprehensive income, then there is no need to recycle because other comprehensive income items that were once recognized do not need to be recognized as profit or loss again. However, IFRS calculates profit or loss in the process of calculating comprehensive income. All other comprehensive income items should be recycled if profit or loss should be calculated. So why is it necessary to calculate profit or loss in the process of calculating comprehensive income while building on the asset and liability view? Comprehensive income is superior in that arbitrariness does not intervene, because comprehensive income profits from fluctuations in net assets. Thus, if an event of fluctuation occurs, it is reflected in profits. However, comprehensive income alone cannot represent a company's business performance.

The Revised Conceptual Framework published by the IASB does not define profit or loss. Comprehensive income cannot represent a company's performance. Therefore, it is necessary to calculate profit or loss in the process of calculating comprehensive income. However, the concept of profit or loss cannot be shown. This is also an adverse effect resulting from mixing the revenue and expense view and the asset and liability view. By defining the elements of the financial statements based on the asset and liability view, a difference is noted in the items recorded from the revenue and expense view. Thus, the profit or loss required for calculating comprehensive income differs from the profit or loss in terms of profit and expense. However, if all other comprehensive income items are recycled, the profit or loss required for calculating comprehensive income may also have implications as a numerical value that can represent business performance.

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Note

i) In IAS 1 [1975] and IAS 1 [1997], bottom line profit in the income statement was profit or loss. In IAS 1 [1997], the other comprehensive income item was to be displayed in the statement of changes in shareholders' equity, so the profit on the income statement remained as profit or loss. With the 2007 revision, bottom line profits become comprehensive income in IAS 1 [2007]. However, this did not mean unification of comprehensive income. In the process of calculating comprehensive income, profit or loss was calculated.

ii) In the calculation of comprehensive income based on the asset and liability view, no specific measurement basis has been determined. If comprehensive income is a change in net assets at the beginning and end of the period, then the basis for measuring assets and liabilities becomes an issue.

iii) According to Sugiyama [2019], "Profit or loss and other comprehensive income in the revised concept framework are not the consequences of the concepts derived from the initial definition of assets and liabilities, but the basic qualitative aspects of fitness and fidelity. It is a concept created as a result of using characteristics as a normative guideline. " (Sugiyama [2019] p. 163)