

November 24, 2015

IFRS Foundation
30 Cannon Street
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By email: commentletters@ifrs.org

**Conceptual Framework for Financial Reporting
Exposure Draft ED/2015/3**

Dear Sir/Madam,

The International Federation of Accountants (IFAC) values the opportunity to comment on the International Accounting Standards Board (IASB)'s above Exposure Draft (ED). IFAC supports the IASB's project to revisit the *Conceptual Framework for Financial Reporting* (the Framework), and considers this is an important and timely initiative, recognizing the value and importance of framework pronouncements in providing a solid basis for future standard setting¹.

IFAC has for many years been a strong advocate for the global adoption and implementation of a high-quality, consistent set of accounting standards; namely the International Financial Reporting Standards (IFRS). We believe a widely-supported conceptual underpinning, revisited periodically to ensure fitness for purpose and currency, plays an important part toward this objective.

Through its current membership of more than 175 professional accountancy organizations in 130 countries and jurisdictions, IFAC represents approximately 2.8 million accountants in public practice, industry and commerce, government, and education. As such, it aims to provide the perspective of the global accountancy profession.

General comments

IFAC commends the IASB on its efforts in reactivating the Framework project, including this ED and the Discussion Paper (DP) released in 2014. However, we note that the consultation process may have benefited from seeking views with respect to the identification and development of new concepts or approaches from the ground up, in addition to retrofitting the existing Framework. For example:

- The concept of business models as contemplated in the International Integrated Reporting <IR> Framework. IFAC believes further exploration of this concept could be valuable in addressing many of the issues that have been frustrated by an unresolved tension between practical demands—often characterized as “sector specific”—and the importance of consistent fundamentals. This may provide

¹ We note the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* was approved by the International Public Sector Accounting Standards Board in September 2014. Although a comparative review of that document and the Framework set out in the ED is beyond the scope of this letter, we encourage ongoing dialogue to ensure consistency where relevant, recognizing also that there are contextual differences in private and public sector accounting.



a better conceptual underpinning where business models warrant specific treatment, such as in the case of investment entity consolidation.

- IFAC concurs with the basis for conclusions that the “statement of profit or loss is not the only source of information about an entity’s financial performance”; however, there may be scope for further examination of what current or emerging alternative information should be dealt with by the Framework, or at least considered in its revision. For instance, the concept of value creation as contemplated in the <IR> Framework.

Furthermore, IFAC suggests the IASB’s efforts to revise the Framework could benefit through more information on and encouragement of responses about the anticipated impacts of changes proposed, such as the consequential impacts on existing standards.

While the current revision addresses many important issues, we believe an ongoing dialogue would be beneficial, along with scope for further revision where this would enhance the Framework’s usefulness and currency.

Comments on the specific questions/revisions proposed in the ED

Stewardship - question 1 (a)

IFAC supports the wording proposed in Paragraphs 1.22 and 1.23, which clarifies the importance of financial information for investors in understanding management’s stewardship of resources. The wording appears appropriate, in context, and does not over-shadow or alter the existing objective of financial reporting. This was a key aspect raised in IFAC’s submission on the DP, and the proposed wording appears to address the primary issues raised in that submission.

Prudence - question 1 (b)

IFAC recognizes the rationale for reintroducing the term “prudence”; and the value in seeking a more clearly understood definition of this term. As detailed in our submission on the DP, we believe a concept of prudence based on exercising a degree of skepticism and challenging the robustness of the inputs and assumptions that underpin accounting estimates is reasonable. However, IFAC would not consider a notion of prudence that introduces bias in the financial statements by providing overly conservative estimates to be appropriate. We also highlight the importance of disclosure in providing understandable and transparent information about accounting estimates, to enable users to apply their judgment in understanding those estimates based on the nature of their decision making.

Noting the considerable range of perspectives on prudence internationally, and the goal of promoting better understanding, IFAC recommends considering whether including further explanation on the rationale underlying prudence, as set out in the basis of conclusions, would be potentially helpful in the Framework itself.



Definitions of assets and liabilities - question 3

Although some explanation is given in the basis of conclusions that accompanied the ED, it was difficult to ascertain why the proposed changes to definitions of assets and liabilities would be required in practical terms, and also difficult to gauge what level of analysis had been undertaken to discern the possible practical impacts of those changes. Given that the existing definitions seem to be generally well understood, we would suggest further analysis could be useful to understand what the potential benefits of the changes are, as well as any possible drawbacks and risks.

Measurement bases – question 8

The approach, changes, and additions proposed in respect of measurement bases are appropriate and appear to largely address the concerns raised in IFAC's submission on the DP.

Presentation and disclosure – question 11

The proposed wording on financial statements as “communication tools” and reference to cost constraints, are expected to be useful steps in addressing the significant, growing issue of complexity in financial statements. IFAC recognizes that the IASB's current Disclosure initiative is intended to largely deal with this issue, but also believes that there is a need for further development of this issue in the Framework.

Currently, the Framework is almost exclusively couched in terms of what should be included in financial statements to meet the objectives of financial reporting. There may be benefit in considering how items that should not be included in financial statements could be given a more explicit conceptual basis. For instance, immaterial items, items that are excessively complex, or items that impair overall understandability, relevance, and the clarity of material information.

We propose that a more developed concept is required to counter the propensity for over-disclosure and complexity as the default in addressing risks related to financial reporting and sometimes, arguably, business or operational matters. Such a concept could extend the arguments initiated in paragraphs 7.8 and 7.9 of the ED, clearly recognizing that the overall complexity added by additional presentation and disclosure should be considered against the informational benefits provided in each case, and considering the financial statements as a whole.

A further possibility recommended for the IASB's consideration is to include a reference to the risk that information is ‘obscured’ (as currently referenced in 7.8(c)), in paragraph 2.11 concerning materiality, i.e. (addition in bold): “Information is material if omitting it, ~~or~~ misstating **it**, **or obscuring** it could influence decisions that the primary users of general purpose financial reports (see paragraph 1.5) make on the basis of financial information about a specific reporting entity”.



Please do not hesitate to contact me should you require further information on any of the matters included in this letter.

Regards,

A handwritten signature in black ink, appearing to read "Faye", is positioned below the "Regards," text. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Faye Choudhury
Chief Executive Officer