

1 September 2008

Professor David Boymal
Chairman
Australian Accounting Standards Board (AASB)
PO BOX 204
COLLINS ST WEST VIC 8007

Via email: standard@asb.gov.au

Dear David

ED 164 An improved conceptual framework for financial reporting: the objective of financial reporting and qualitative characteristics and constraints of decision-useful financial reporting information

CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) are pleased to respond to the Exposure Draft (ED) 164 *An improved conceptual framework for financial reporting: the objective of financial reporting and qualitative characteristics and constraints of decision-useful financial reporting information*.

CPA Australia and the Institute have jointly considered the ED. Our specific comments directed to the International Accounting Standards Board (IASB) are provided as an attachment for your information.

This letter addresses the specific matters requested by the AASB only. Our preference would be that any 'objective' and 'qualitative characteristics' that are eventually decided upon by the Boards should be appropriate for application across the different sectors. However we note in the attached appendix, that this may not be possible given the IASB's initial focus on the for-profit sector. We further note the significant amount of work currently under way to better understand the implications of the proposed Conceptual Framework for Financial Reporting for the different sectors. Some of these projects are incomplete or have not yet commenced. We understand the work of the Chairs and Senior Staff of the AASB, CASB, NZASB and UKASB *A Report on the Application to Not-for-profit Entities in the Private and Public Sectors* is likely to be ongoing. We have considered their recently published Report and think that work is valuable. We note that the International Public Sector Accounting Standards Board (IPSASB) is developing its framework separately. We encourage the AASB to continue to give appropriate consideration to the deliberations and the developments of the IPSASB.

CPA Australia and the Institute accept that there may be some circumstances unique to the not-for-profit and public sectors which requires certain amendments to measurement, recognition and disclosures. We encourage the AASB to develop a policy as a matter of priority to enable these changes to be done in a consistent manner which may take into account obvious 'signposts' such as nature, impact, cost and prevalence considerations. Dependent on the outcome of this policy, it may be determined that a separate conceptual framework is warranted, even if terminologies are the only changes made.

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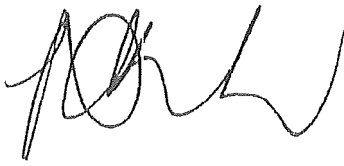
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We encourage the AASB to contend to the IASB that consideration of not-for-profit issues is a major area in many jurisdictions that should not be left to the end of the framework project and should be done concurrently as each section is developed.

If you require further information on any of our views, please contact John Ngiam, CPA Australia's Financial Reporting and Governance Policy Adviser via email at john.ngiam@cpaaustralia.com.au, or Kerry Hicks, the Institute's Head of Reporting by email to kerry.hicks@charteredaccountants.com.au. Sir

Yours sincerely



Geoff Rankin
Chief Executive Officer
CPA Australia Ltd



Chief Executive Officer
Institute of Chartered Accountants

Copy: Sir David Tweedie, Chairman of the International Accounting Standards Board

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Appendix - AASB Specific Matters for Comment

(a) as indicated above, because the IASB-FASB joint conceptual framework project has an initial focus on for-profit entities in the private sector, the AASB plans to undertake additional consultation with constituents in relation to not-for-profit issues. In the meantime, in relation to the topics of 'objective' and 'qualitative characteristics' covered by the Exposure Draft, the AASB would welcome comments on the issues that would need to be considered if the proposed concepts were also to be applied in Australia to not-for-profit entities in the private and public sectors and for-profit entities in the public sector;

In our view the IASB/FASB decision to produce a conceptual framework focussed on the private sector for-profit needs of capital providers was unhelpful to standard setters in other countries that have replaced their national GAAP with IFRS for use in the not-for-profit sector also. We have recommended to the IASB that not-for-profit consideration be addressed at each stage of development of the framework, rather than leaving this to the end of the framework project.

The joint project by the Canadian, NZ, Australian and UK standard setters on the implications of the conceptual framework for the not-for-profit sector should be referred to in this instance in order to determine whether a conceptual framework can incorporate both profit and not-for-profit considerations in the one framework, as was done in the predecessor AASB conceptual framework.

The AASB is placed in a difficult position in deciding how to apply the conceptual framework in Australia for both the profit and not-for-profit sectors. Whilst we would like to see one framework that applies across all sectors, it is hard to see how this can be achieved, given the drafting constraints imposed by the adoption of IFRS. The insertion of Australian paragraphs into our standards has led to the mistaken perception in some overseas jurisdictions that the Australian standards are not the same as IFRS, according to Sir David Tweedie on his recent visit to Australia. This impression, while incorrect, must be strenuously addressed.

We therefore reluctantly suggest that the AASB should consider preparing a separate Framework, based on those prepared by the IASB/FASB and IPSASB, for use in the public and not-for-profit sectors.

Overall, CPA Australia and the Institute support the same broad objective of financial reporting (as defined in paragraph OB2) and qualitative characteristics (as presented in paragraph QC7) for both the for-profit and not-for-profit sectors. We understand the broad objective of financial reporting (i.e. '... to provide financial information about the reporting entity that is useful ...') is equally applicable across the different sectors. However, we note that some terminology used in paragraph OB2, namely 'equity investors' and 'capital providers' is not intuitively applicable in the not-for-profit context. While this may be addressed with the appropriate terminology being provided in supplementary paragraphs, we note the comments above regarding the international perception of Australian equivalents to IFRS as being modified IFRSs, and therefore consider that there may be a need for this matter to be dealt with in a separate document. The terminology used in SAC 2 *Objective of general purpose financial reporting*, such as resource providers and recipients of goods and services, may be a good starting point to develop alternate terminology.

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It is also the view of CPA Australia and the Institute that the qualitative characteristics are broadly applicable and appropriate for both for-profit and not-for-profit sectors. However, again the terminology issues identified above along with the emphasis on different characteristics may again warrant this being dealt with in a separate document. We are of the view that the AASB's work on the policy for modifying IFRSs for public sector and not-for-profits will lead to an improved understanding of the fundamental qualitative characteristics of 'relevance' and 'faithful representation' and how it applies to a different sector. The work will also lead to a better understanding of the proposed four enhancing qualitative characteristics of comparability, verifiability, timeliness and understandability.

We note that the International Public Sector Accounting Standards Board (IPSASB) is developing its framework separately. We encourage the AASB to continue to give appropriate consideration to the deliberations and the developments of the IPSASB.

(b) whether the proposals would result in financial reports that are useful to users; and

The 'objective' and 'qualitative characteristics' are clearly linked to the information needs of users in making decisions. Therefore when the information needs of users are considered in a not-for-profit sense by the AASB, we see no impediment to financial reports being useful to those users.

(c) whether the proposals in the Exposure Draft are in the best interests of the Australian economy.

Serious consideration of the not-for-profit and public sectors would need to take place, as discussed above, before it could be determined whether the Exposure Draft is in the best interests of the Australian economy. In a for-profit context our submission to the IASB is generally supportive of the proposed 'objective' and 'qualitative characteristics'.

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1 September 2008

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

Email: CommentLetters@iasb.org

Dear Sir David

Comments on IASB Exposure Draft of An Improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information

Thank you for the opportunity to comment on the IASB Exposure Draft (ED) of An Improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information.

CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) are professional membership bodies representing professional accountants in Australia. We represent over 160,000 members who work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

CPA Australia and the Institute have jointly considered the ED. This is an improvement on the earlier Discussion Paper Preliminary Views on an improved Conceptual Framework for Financial Reporting. We believe that the [proposed] Conceptual Framework for Financial Reporting prescribes an appropriate objective and gives adequate prominence to the usefulness of financial reporting in assessing managements' accountability for its stewardship responsibilities. We consider that Chapter 2 of the [proposed] Conceptual Framework for Financial Reporting appropriately articulates the qualitative characteristics and constraints of decision-useful financial reporting information. Our response to matters on which specific comment is requested is included in the attached Appendix.

CPA Australia and the Institute continue to have concerns with the approach of the boards to:

- delay their consideration of private sector not-for-profit entity issues until the end of the project; and
- publish each chapter of the Conceptual Framework for Financial Reporting at the time of its completion.

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We encourage the boards to contemporaneously consider issues as they relate to all private sector entities. We believe the work of the Chairs and Senior Staff of the AASB, CASB, NZASB UKASB "A Report on the Application to Not-for-profit Entities in the Private and Public Sectors" and the International Public Sector Accounting Standards Board on its conceptual framework project may be informative. We have included our submission to the Australian Accounting Standards Board (AASB) addressing not-for-profit issues as an attachment for your information. Further, we encourage the boards to delay publication of individual chapters until the finalisation of all chapters to ensure internal consistency and remove the need for consequential amendments to earlier parts.

If you have any questions regarding this submission, please do not hesitate to contact either Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au or Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au.

Yours sincerely



Geoff Rankin
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Graham Meyer
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Copy: David Boymal, Chairman, Australian Accounting Standards Board

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Appendix – Matters on which specific comment was requested

Chapter 1 The objective of financial reporting

- 1. The boards decided that an entity's financial reporting should be prepared from the perspective of the entity (entity perspective) rather than the perspective of its owners or a particular class of owners (proprietary perspective). Do you agree with the boards' conclusion and the basis for it? If not, why?**

We agree with the boards' conclusion that the financial reports reflect the perspective of the entity. We note Australia's long history of using the entity perspective and not the proprietary or parent entity perspectives. We consider that paragraphs BC1.11-BC1.17 articulate an appropriate basis for the boards' conclusion.

- 2. The boards decided to identify present and potential capital providers as the primary user group for general purpose financial reporting. Do you agree with the boards' conclusion and the basis for it? If not, why?**

We agree with boards' conclusion that the primary user group for general purpose financial reporting is present and potential capital providers.

We note the term "capital providers" is used in broad sense in that it includes equity investors, lenders and other creditors even when the relationship is not primarily that of a capital provider. We support this approach. However, we do not think it is intuitive to think of employees as capital providers (notwithstanding their annual leave and long service leave claims that are the result of their providing their human capital to the entity). We suggest the [proposed] IASB Conceptual Framework for Financial Reporting either give greater prominence to paragraph QB6(c) or use a different term (e.g., "claimant") to describe creditors whose relationship is not primarily that of a capital provider.

We believe that the basis for conclusions articulated in paragraphs BC1.18-1.24 provides an appropriate basis for the boards' conclusion.

- 3. The boards decided that the objective should be broad enough to encompass all the decisions that equity investors, lenders and other creditors make in their capacity as capital providers, including resource allocation decisions as well as decisions made to protect and enhance their investments. Do you agree with the objective and the boards' basis for it? If not, why? Please provide any alternative objective that you think the boards should consider.**

We support the inclusion of a broad objective in the [proposed] Conceptual Framework for Financial Reporting. Paragraph QB12 articulates a link between management's performance in discharging its stewardship responsibilities and cash flows – a link we think is consistent with a broad objective for financial reporting.

We consider that paragraphs BC1.24-BC1.30 articulate an appropriate basis for the boards' conclusion.

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Chapter 2 Qualitative characteristics and constraints of decision-useful financial reporting information

Chapter 2 describes the qualitative characteristics that make financial information useful. The qualitative characteristics are complementary concepts but can be distinguished as fundamental and enhancing based on how they affect the usefulness of information. Providing financial reporting information is also subject to two pervasive constraints – materiality and cost. Are the distinctions – fundamental and enhancing qualitative characteristics and pervasive constraints of financial reporting – helpful in understanding how the qualitative characteristics interact and how they are applied in obtaining useful financial reporting information? If not, why?

We believe the distinctions made in the [proposed] Conceptual Framework for Financial Reporting are helpful in understanding how the qualitative characteristics interact and how they are applied in obtaining useful financial reporting information.

1. Do you agree that:
 - a. Relevance and faithful representation are fundamental qualitative characteristics? If not, why?
 - b. Comparability, verifiability, timeliness and understandability are enhancing qualitative characteristics? If not, why?
 - c. Materiality and cost are pervasive constraints? If not, why? Is the importance of the pervasive constraints relative to the qualitative characteristics appropriately represented in Chapter 2?

We agree with the proposals.

2. The boards have identified two fundamental qualitative characteristics – relevance and faithful representation:
 - a. Financial reporting information that has predictive value or confirmatory value is relevant.
 - b. Financial reporting information that is complete, free from material error and neutral is said to be a faithful representation of an economic phenomenon.
 - i. Are the fundamental qualitative characteristics appropriately identified and sufficiently defined for them to be consistently understood? If not, why?
 - ii. Are the components of the fundamental qualitative characteristics appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?

We agree with the proposals.

3. Are the enhancing qualitative characteristics (comparability, verifiability, timeliness and understandability) appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?

We agree with the proposals.

4. Are the pervasive constraints (materiality and cost) appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?

We agree with the proposals.

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