



28 June 2013

Our ref: ICAEW Rep 91/13

Ms Françoise Flores
Chairman
EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

By email to commentletters@efrag.org

Dear Françoise

Getting a Better Framework: Reliability of Financial Information

ICAEW is pleased to respond to your request for comments on the *Getting a Better Framework* bulletin: *Reliability of Financial Information*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

GETTING A BETTER FRAMEWORK:RELIABILITY OF FINANCIAL INFORMATION

Memorandum of comment submitted in June 2013 by ICAEW, in response to the European Financial Reporting Advisory Group *Getting a Better Framework* bulletin: *Reliability of Financial Information*, published in April 2013

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the *Getting a Better Framework* bulletin *Reliability of Financial Information*, published by the European Financial Reporting Advisory Group (EFRAG) in April 2013, copies of which are available from this [link](#).

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The Faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

MAJOR POINTS

The *Getting a Better Framework* initiative

5. We welcome EFRAG's initiative in setting up the *Getting a Better Framework* project. As the IASB is preparing proposals for a revised conceptual framework, this is a good time to promote discussion on these issues. We note that the key conclusions set out in the bulletins are expressed as tentative and, as the IASB has not yet published its proposals, we believe that this is the right approach at this stage. For the same reason, our own comments on the bulletins should be seen as provisional views, pending the IASB's publication of its proposals, at which point we will be revisiting the issues discussed in the bulletins.

Reliability of Financial Information

6. We do not fully share the concerns expressed in the *Reliability of Financial Information* bulletin about the disappearance from the conceptual framework either of reliability as a qualitative characteristic or, in consequence, of the relevance/reliability trade off. When the IASB issued its proposals for what became the 2010 version of the conceptual framework, we did not object to the effective replacement of reliability by faithful representation and verifiability. But we did object to the two-tier classification of qualitative characteristics, and we argued that, if it were to be retained, verifiability should be classified as a fundamental characteristic rather than an enhancing characteristic. We remain of the view that the conceptual framework could be improved in this respect.
7. As for the reliability/relevance trade off, there is, as the bulletin acknowledges, a faithful representation/relevance trade off in the 2010 conceptual framework. If, as we have suggested, verifiability were reclassified as a fundamental characteristic, it would be appropriate to recognise that there is also in practice a relevance/verifiability trade off.

RESPONSES TO SPECIFIC QUESTIONS

Question (i)

Are there any arguments for either of the views set out in the Bulletin that we have not discussed?

8. On the side of the 'Nothing has been lost' view, it would be helpful to refer to the relevance/faithful representation trade-off at QC18 of the 2010 conceptual framework. This makes it clear that information that does not pass the faithful representation test is not acceptable, however relevant it may be. Under the QC18 test, relevance is traded off until faithful representation is attained.

Question (ii)

Which view do you support? Why?

9. It is probably the case that something has been lost, but not as much as the bulletin suggests. We believe that the current problem with the framework could be addressed by making verifiability a fundamental characteristic.

Other comments on the bulletin

10. The alleged instances of disregard for reliability mentioned in the bulletin seem to have arisen mainly under the pre-2010 conceptual framework. This suggests that the old relevance/reliability trade off was, in EFRAG's view, ineffective in securing sufficient reliability. So it is not clear what would be gained, from EFRAG's point of view, by reinstating it.
11. We disagree with the argument at paragraph 20 of the bulletin. We do not think that the 2010 revisions to the conceptual framework reflect an assumption that every measurement basis is 'sufficiently reliable to warrant recognising an element in the primary financial statements' or that 'reliability is essentially a matter for disclosure'. The IASB has certainly not reflected such assumptions in its standard setting, either before or after 2010.
12. At paragraphs 18 and 21, there are mentions of the 'academic evidence' and the 'academic literature', but without any specific references. In future bulletins, if it is wished to cite the academic literature in support of a particular proposition, it would be helpful to give references to specific publications.
13. It may be helpful to consider the ICAEW Audit & Assurance Faculty's recent publication, *Reliability Matters: Reliability and the Central Role of the Auditor*, which has been sent to EFRAG separately. The starting point of this report is the observation that people expect audited financial statements to be reliable. As, to the best of our knowledge, public companies required to comply with IFRS are invariably also required to have their accounts audited, we think it is reasonable to assume that there is a public expectation that such accounts should be reliable. Whatever the precise wording of the conceptual framework, it would be a mistake for the IASB to prepare standards that are inconsistent with this expectation.

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