

Date  
20 March 2007

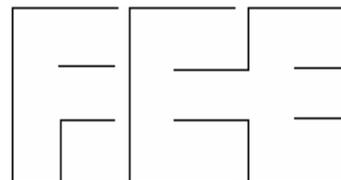
Le Président

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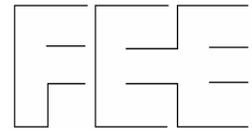
Dear Mr. Chevy,

Re: PAAinE Discussion Paper “Elements of the Framework Debate – The Conceptual Framework: Starting from the right place?”

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its views on the PAAinE Discussion Paper “Elements of the Framework Debate – The Conceptual Framework: Starting from the right place?” We welcome the PAAinE initiative to stimulate the debate within Europe on the IASB/FASB project in order to make it easier for Europe to participate actively and influentially in the global debate on the Framework. We appreciate that the PAAinE wishes to address the question whether the work has started from the right place. We support the concern expressed in the Discussion Paper that the purposes of the Framework do not form part of the first stage of the IASB/FASB project.
2. It would have been preferable if the IASB had developed an overview of the whole project, with a description of each phase and the related issues at stake, to clarify the long-term vision of the project. The separation into several phases makes it difficult to assess the implications of the concepts proposed. Moreover, discussions are made more complex without knowing the scope of the project. We suggest that the Board first discuss the role and purpose of financial statements today. Once all parts of the project have been dealt with, we suggest that the complete proposed Framework be exposed again for comment to reconsider decisions taken in the different phases.
3. Below we present our reactions on the main questions addressed in the PAAinE Discussion Paper.

*Should the framework be mandatory and, if so, for whom?*

4. We share the position expressed in the tentative views calling for a mandatory Framework with exceptions to take account of new transactions and economic evolution.
5. The future Framework will have an impact on future standards because it provides structure and direction to the development of standards. For it to be useful, the future standards have to be based on the same concepts as the Framework to be consistent as a whole. It is unacceptable to issue future standards which are not in accordance with the concepts of the Framework, except as in those rare circumstances where:
  - (i) The reasons and consequences of the decision to depart from the Framework, together with the plan for eliminating the inconsistency, are explained fully in the standard;
  - (ii) The change to or deviation from the concepts set out in the Framework has been considered in the context of the Framework as a whole and not merely in the context of the issues addressed in the particular standard;



- (iii) The intention is that the inconsistency will be temporary and that the Framework and standard will be conformed as soon as practicable; and
- (iv) The inconsistency is relatively minor.

*The role of the framework in the preparation of financial reporting*

- 6. The Framework is largely for standard setters to use when developing standards. Nevertheless, it plays a role in the preparation of financial statements through paragraph 11 of IAS 8. It is important that the concepts in the Framework continue to be part of the hierarchy for developing and applying an accounting policy in the absence of an IFRS that specifically applies to the transaction. The existence of a hierarchy is an inherent part of principles-based standards because they underlie financial reporting. We agree that the Framework presents a set of concepts and principles and is not a standard as expressed in the tentative view. Therefore, we believe that the following changes should be made to paragraph 2.3.9 *“The framework should not generally be used to override IFRSs as this leads to subjective interpretations of high level principles and ~~could~~ should thus only be justified in exceptional circumstances.”*

*Are general purpose financial statements for all stakeholders a valid concept?*

- 7. We agree that more research needs to be undertaken to the conceptual rationale for the entity and proprietary perspective, in particular where both perspectives lead to different accounting treatments. Such research needs to cover the role of stewardship in order to get a better understanding of the concept. Accountability of management is important for users and existing shareholders to take decisions about the ability of management to generate economic value. It has been the main reason for producing financial statements in Europe.
- 8. The analysis of users' needs is not sufficient to conclude that information needed by investors is likely to be useful to other users. For example, the users of financial reporting by SMEs will be interested in solvency, long-term stability of performance and stewardship of the entity, which contrast with users of financial reporting of listed companies who will look for short term fluctuations in the value of the entity for buy or sell decisions.

*Do investors and creditors represent a homogeneous enough group to be chosen as primary users?*

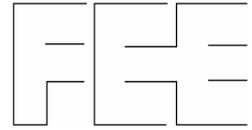
- 9. We agree that, although there may be some common information needs, not all investors and creditors have the same needs. One set of financial statements cannot fit all. We agree that a clear definition of the primary users is needed with an appropriate analysis of their needs.

*Do the users of financial reporting of profit-oriented and non-profit oriented entities have similar needs?*

- 10. In the discussion of profit vs. non-profit organisations, also the IPSAS (International Public Sector Accounting Standards) need to be referred to. Since many stakeholders are the same in a profit-oriented and non-profit oriented organisation – with exception of the owners-shareholders – we agree with focusing on the profit-oriented business and to examine at a later stage what modifications are necessary for non-profit oriented organisations as set out in the tentative views.

*Do the users of financial reporting of small, large, listed and unlisted entities have similar needs?*

- 11. We do believe that user needs may differ for large and listed entities and smaller entities. This is also evidenced by the IFRS for SMEs project. Notably for SMEs, stewardship is more important than the predictability of results. We are concerned that the focus of the decision usefulness objective on resource allocation decision and assessment of future cash flows moves it further towards investors and reduces the importance of assessing stewardship of management. At present many investigations/surveys take place. The results of these surveys should be carefully examined.



12. The users of large listed entities' financial statements are different from those of SMEs, in that they have a different balance of their needs in relation to each category of stakeholders.

*Defining financial reporting*

*Do financial statements and other types of financial reporting have similar objectives? Do financial statements and other types of financial reporting have similar qualitative characteristics? Can all kinds of financial reporting be dealt with by the same framework?*

13. The Framework should apply in the first place to information concerning the financial position and the performance of the entity. The concepts in the Framework do not apply across to other financial reporting information. It is difficult at this stage to judge the implication of including all financial reporting in the scope because the discussion on the boundary of financial reporting will be addressed later on in the project. Non-financial information should be outside the scope of the Framework.
14. It would be helpful to distinguish between corporate reporting and financial reporting. The scope of the Framework should be limited to financial reporting. Corporate reporting, for example sustainability reports, press releases, corporate governance statements or any other statements for specific users or required by law should be outside the scope of the Framework.
15. Management Commentary is an integral part of financial reports but clearly distinct from the financial statements. We believe Management Commentary is not part of the financial statements. The principles included in the Framework such as qualitative characteristics and user identification would likewise apply to selecting information for the Management Commentary. However we see no need to extend the Framework in order to cover Management Commentary's objectives.
16. Following the observations above, we agree with the tentative views as presented in section 5.6 of the Discussion Paper.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

Jacques Potdevin  
President