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

By email to [commentletters@efrag.org](mailto:commentletters@efrag.org)

Dear Françoise

**Getting a Better Framework: The Role of a Conceptual Framework**

ICAEW is pleased to respond to your request for comments on the *Getting a Better Framework* bulletin: *The Role of a Conceptual Framework*.

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

Yours sincerely

Dr Nigel Sleigh-Johnson  
Head of Financial Reporting Faculty

T +44 (0)20 7920 8793  
E [nigel.sleigh-johnson@icaew.com](mailto:nigel.sleigh-johnson@icaew.com)



## ICAEW REPRESENTATION

### GETTING A BETTER FRAMEWORK: THE ROLE OF A CONCEPTUAL FRAMEWORK

Memorandum of comment submitted in September 2013 by ICAEW, in response to the European Financial Reporting Advisory Group, French Autorité des Normes Comptables, Accounting Standards Committee of Germany, Organismo Italiano di Contabilità and UK Financial Reporting Council *Getting a Better Framework* bulletin *The Role of A Conceptual Framework* published in June 2013

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## INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the European Financial Reporting Advisory Group, French Autorité des Normes Comptables, Accounting Standards Committee of Germany, Organismo Italiano di Contabilità and UK Financial Reporting Council *Getting a Better Framework* bulletin *The Role of a Conceptual Framework* published in June 2013, a copy of which is 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 140,000 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. As we have stated in our responses to the first three bulletins in this series, we welcome the initiative of EFRAG and its associated national standard setters in setting up the *Getting a Better Framework* project. Now that the IASB has issued its discussion paper, *A Review of the Conceptual Framework for Financial Reporting*, commentators' resources will inevitably be focused primarily on that. The bulletins have served a useful purpose in promoting discussion on issues that should form part of the conceptual framework debate. However, two further bulletins have now been published, two months into the consultative period for the IASB's discussion paper: *Accountability and the Objective of Financial Reporting* and *The Asset/Liability Approach*. We think that, as the series continues, the bulletins are unlikely to attract the attention they deserve, as commentators will give priority to the IASB discussion paper and any subsequent IASB publications on the conceptual framework. We therefore suggest that EFRAG and the associated national standard setters should consider bringing the series to an end, at least as consultative exercises to which responses are expected.
6. The key conclusions set out in the bulletins are expressed as tentative and, as – until the two most recent bulletins – they were prepared before the IASB had published its proposals, we believe that this is the right approach. For the same reason, our own comments on the bulletins should be seen as provisional views, as we are still considering the IASB's discussion paper, and will be revisiting the issues discussed in the bulletins as we do so.

### *The Role of a Conceptual Framework*

7. The bulletin puts forward what seems to be a deductive approach to standard setting, under which IFRS requirements and guidance are to be 'derived from the objectives and concepts of

the framework' and 'departure from the framework should be exceptional and requires strong justification' (paragraphs 12-13).

8. We agree that, once a satisfactory framework has been established, it would be desirable for the IASB's standards to be consistent with it. But we think it unlikely that it will be possible to agree a framework that is so comprehensive, so clear in its implications and so timeless in its principles, that it would be reasonable to expect standards to flow from it logically and without deviation. It is difficult in a general framework to anticipate the advantages and disadvantages of different options for all the specific questions that arise when a particular accounting problem is addressed. Furthermore, general concepts are likely to be considered more carefully when they are applied to specific questions rather than at the time of their inclusion in a conceptual framework. It is also likely that a general framework will set out conflicting considerations that will often lead to potentially divergent conclusions on particular issues.
9. Finally, accounting thought evolves in response to changes in business practices, markets, technologies and the regulatory environment. The need for change is most likely to be recognised in considering particular issues, rather than at the level of debate on a general framework. For all these reasons, we think that a conceptual framework should be a guide, not a straitjacket. It should no doubt be updated from time to time as thinking develops – perhaps every few years; leaving it unchanged for decades would almost certainly be inadequate.

## RESPONSES TO SPECIFIC QUESTIONS

### Q1: Do you think the IASB should invariably follow the Framework? (Paragraphs 6-11)

10. For the reasons explained above, while we believe that it would be desirable for the IASB's standards to be consistent with the conceptual framework at the time the standards are issued, it would be going too far to expect the IASB invariably to follow the framework. We agree, though, that where the IASB departs from the conceptual framework it should give 'a clear explanation of the reasons and the specific circumstances for departure' (paragraph 13).
11. We envisage that 'departures' from the framework would cover situations such as, eg, a standard that requires a liability to be recognised that does not meet the definition of a liability or an asset to be recognised that does not meet the definition of an asset. But, as noted above, it is likely that the conceptual framework will set out potentially conflicting considerations (eg, relevance v faithful representation, costs v benefits) that need to be weighed against one another in arriving at a conclusion. That one consideration has been outweighed does not necessarily mean that there has been a departure from the framework. And we assume that even where there are apparent 'departures' from the framework, these will often occur in order to satisfy some other aspect of it, eg, to provide more useful information. It may therefore usually be a mistake to think of 'departures' from the framework rather than of potentially conflicting considerations within the framework itself.

### Q2: What do you think is an appropriate approach to achieve a complete Framework? (Paragraphs 15-19)

12. As the IASB has now put forward proposals for a revised framework, we will be addressing these questions in responding to its proposals.

### Q3: Do you think the current reference in IAS 8 to the Framework as authoritative guidance is useful? (Paragraphs 23-28)

13. We believe that the requirement in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, to refer to the conceptual framework (among other sources) in the absence of an IFRS, is useful and should be retained.

**Q4: Do you think the Framework project should develop questions and decision trees or process flowcharts for developing IFRS requirements? (Paragraphs 31-32)**

14. We are doubtful how far stipulating step-by-step decision-making processes for the IASB would actually lead to better standards. While process is important, a focus on it is characteristic of bureaucracies and its main object is often to arrive at defensible decisions rather than to improve outcomes. If such processes are adopted in the US, we shall of course be interested to see how far they do indeed lead to better standards. But it needs to be borne in mind that the highly legalistic environment in the US often prompts an emphasis on process that is not necessarily appropriate elsewhere.

**Q5: How should the IASB proceed with existing IFRS in the context of a revised Framework? (Paragraphs 35-37)**

15. We do not think that any changes to the conceptual framework should automatically trigger a review of all existing standards to ensure that they are in conformity with it. Standards should not be constantly changing, and where a decision is made to review an existing standard this should be because of practical problems or because it is clearly capable of improvement, rather than to remove (or find justifications for) possible conceptual inconsistencies.

16. We do believe though – and have previously suggested – that, once the framework is complete, there should be a comprehensive review of existing disclosure requirements to see whether all of them are justified. We do not suggest this out of any desire for conceptual uniformity but because such a review is required anyway. But it would be sensible to delay it until the revised framework, with its new content on disclosure, is agreed. There may well be other actions that the IASB can take more quickly to address disclosure problems. The IASB has already announced that it plans to consider ‘narrow-scope’ amendments to IAS 1, *Presentation of Financial Statements*, in relation to materiality and the preparation of guidance on materiality. As the IASB has indicated, neither of these projects needs to wait until the conceptual framework has been revised.

**Q6: The Framework is not an IFRS (according to the IASB’s own terminology) and it is, therefore, outside the scope of endorsement. Has this caused any issues for you in practice and, if so, how do you believe they might be addressed?**

17. We are not aware of any practical problems that have been caused by the current position and we do not believe that it would be a good idea to bring the framework within the scope of the EU’s endorsement process. While IFRS may be regarded as a form of quasi-legislation, for which some form of legislative endorsement is therefore appropriate, the conceptual framework is about concepts, and we foresee no good coming out of making conceptual propositions the subjects of legislative scrutiny and approval. The reference to the conceptual framework in IAS 8 should not affect this. IAS 8 mentions a number of sources that may be referred to, including the standards of other countries and ‘other accounting literature’. It cannot be expected that all this will or should be made subject to legislative scrutiny or we would end up with the EU approving (or condemning) accounting textbooks.

18. Doubts have been expressed in some quarters, though, about whether compliance with IFRS is necessarily consistent with EU legal requirements, and to some extent these doubts are based on the 2010 changes to the IASB’s conceptual framework. While we make no specific recommendations at this stage, it would be sensible to clarify matters in some way so as to remove these uncertainties, preferably in a way that also allows for future – as yet unknown – changes to the framework.

**Q5: Do you have any other comments on this bulletin?**

19. Paragraph 7 casts doubt on the importance that the IASB attaches to the conceptual framework project. While this may have been justified in the past, the publication of the IASB’s discussion paper suggests that its priorities have now changed.

**E** [brian.singleton-green@icaew.com](mailto:brian.singleton-green@icaew.com)

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