



Ms. Françoise Flores
TEG Chair
EFRAG
Square de Meeûs 35
B-1000 BRUXELLES

E-mail: Commentletters@efrag.org

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Ref.: ACC/AKI/HBL/SRO

Dear Ms. Flores,

Re: EFRAG Getting a Better Framework Prudence Bulletin

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on EFRAG Getting a Better Framework Prudence Bulletin (the "Bulletin").
- (2) We support EFRAG's initiative, together with other national standard setters, to stimulate debate on key issues related to the IASB Conceptual Framework and to ensure that the European views are influential in this debate.
- (3) We believe that in itself, prudence should not be considered as a primary factor in the development of accounting standards. Prudence should make its way through other concepts such as reliability and uncertainty in the process of developing and applying accounting standards.
- (4) However, we are quite convinced that, as it is the case in the current applicable standards, prudence should be reflected through the asymmetry of thresholds for recognition of assets and liabilities in the development of accounting standards.
- (5) Having reflected appropriately prudence in the recognition of assets and liabilities, the role of prudence in the development (and in the application) of accounting standards may be limited to a general exercise of caution. This means that prudence should not become 'over-prudence', for instance by building up unsubstantiated reserves, but that in cases of doubt, caution is exercised in accounting for estimates, etc.
- (6) In this respect, we believe that the IASB Conceptual Framework would also benefit from explaining the relationship between prudence and neutrality.
- (7) We would characterise the level of prudence required as "good prudence" which we would refer to as "quality prudence". A quality of prudence is one that does not come at the expense of relevance and transparency of information.

- (8) In addition to the examples provided in paragraph 22, the following requirements may reflect a lack or an excess of prudence in current IFRS:
- Non-amortisation of goodwill and of certain intangibles under IAS 36 is an often cited example of lack of prudence;
 - On the other hand, some consider that the non-reversal of goodwill impairment loss is an example of excessive prudence;
 - The different threshold for recognition of intangible assets under IAS 38 as compared to those for recognition of property, plant and equipment under IAS 16.
- (9) As an aside, we note that paragraph 10 refers to “academic literature” without citing the specific literature referred to. It would be useful if future bulletins would specify the source of the information cited.

For further information on this letter, please contact Hilde Blomme, FEE Deputy CEO at the FEE Secretariat on +32 2 285 40 77 or via e-mail at hilde.blomme@fee.be.

Yours sincerely,



André Killesse
President



Olivier Boutellis-Taft
Chief Executive