



Secretariat: A.J. Ernststraat 55  
Postbox 7984  
1008 AD Amsterdam  
The Netherlands

T +31 (0)20 301 03 91  
F +31 (0)20 301 02 79  
rj@rjnet.nl  
www.rjnet.nl

EFRAG  
Attn. EFRAG Technical Expert Group  
41, Avenue des Arts  
B-1040 Brussels  
Belgique

Our ref : AdK  
Date : 13 March 2007  
Re : Comment on your letter regarding the PAAinE Discussion Paper in respect of the Conceptual Framework

Dear members of the EFRAG Technical Expert Group,

We appreciate the opportunity to respond to the PAAinE Discussion Paper in respect of the conceptual framework.

We support the PAAinE initiative to stimulate debate on important issues on the IASB agenda at an early stage in the IASB standard-setting process. However, in order to be effective and pro-active timing is of the essence in the activities of PAAinE. That requires a fine balance between speed and completeness.

We believe that the PAAinE Discussion Paper addresses relevant issues. The question we raise is whether there is a need to draw a line somewhere before the discussion becomes too broad or diffuse. In a number of instances we see the view expressed that further research is necessary. That is laudable but to be pro-active also means to be constructive. A certain level of common sense and pragmatism may be required in order to expedite projects. This may imply acceptance of the fact that further research is not always be possible on every position taken by IASB/FASB, at least not when you want to achieve a timely impact in the standards-setting process.

In the appendix to this letter we have included our comments on the tentative views related to the specific issues identified.

Yours sincerely,

Hans de Munnik RA  
Chairman Dutch Accounting Standards Board

## **Appendix Comments relating to tentative views on the specific identified issues**

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

2.2.11. A framework with mandatory status is the most useful for standard setters in that it provides a stable conceptual basis for developing standards and ensures the coherence and consistency of financial reporting standards.

2.2.12. Exceptions to the consistency between new standards and the existing framework could be accepted (e.g. to take account of new transactions and economic evolution) provided such exceptions were justified in the Basis for Conclusions of the new IFRS and a commitment to revising the framework was given.

2.2.13. However, in order to maintain a stable conceptual reference, a framework should not be subjected to frequent change. Moreover, before changing the framework it is necessary to evaluate the impact of the change on IFRSs as a whole.

### ***Comment DASB***

*We agree. Furthermore we are of the opinion that the purpose and status of the framework (currently planned in one of the last phases of the project) should be discussed in a much earlier stage. It seems strange to develop the entire framework first and to decide upon the purpose and status of the framework afterwards.*

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

2.3.7. The framework represents a set of concepts and principles and is not a standard. The direct application of the framework in financial reporting would, therefore, only be appropriate in the absence of a specific standard or interpretation.

2.3.8. However, in the absence of specific standards or interpretations the framework should be considered to have authoritative status.

2.3.9. The framework should not be used to override IFRSs as this leads to subjective interpretations of high level principles and could only be justified in exceptional circumstances.

### ***Comment DASB***

*In our opinion the framework should have a direct role in the preparation of financial statements as currently set out in IAS 1.17 and IAS 8.11. The purpose of the framework to provide direction and structure to the standard setting process means in our opinion that it is unacceptable that standards are issued that are not consistent with the framework. Departing from the framework should only be temporarily.*

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

3.2.15. The assumption underlying general purpose financial statements is that the needs of investors and creditors cover most of the needs of reporting needs of other user groups. Little or no evidence is provided to justify this assertion. Economic theory and accounting perspectives do not justify, at this stage, the choice to focus on any particular category of users. In order to avoid misleading conclusions, more evidence should be gathered to justify the current IASB/FASB's proposal if it were to be pursued.

Therefore, it is essential that :

- a) more research work be undertaken with regards to the conceptual rationale for the two perspectives,
- b) in the meanwhile, the focus should be put on the definition of homogenous categories of users with regards to their needs.

***Comment DASB***

*We agree. The approach adopted by the IASB/FASB may not appropriately consider that financial statements users within each of these groups could have different information needs. The IASB Discussion Paper indicates that the Boards chose to identify a primary group of users to "provide an important focus" for the conceptual framework, and prevent it from becoming "unduly abstract or vague". However, we believe the Boards still can achieve this focus and avoid the pitfall of having to assume that all users within a broadly-defined category share the same information needs by developing a hierarchy of users based on their specific information needs. Incorporating a user hierarchy into the conceptual framework would ensure that none of the user groups identified in paragraph OB6 of the IASB Discussion Paper are ignored by the framework, yet still allow the Boards to place greater priority on the needs of critical user groups.*

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

3.4.1. There seem to be some common information needs within the creditors/investors community. However for certain sub categories, main focuses may be different from one category to the other.

3.4.2. Different user needs may have significant consequences on major elements of financial reporting, such as for example, the definition, of financial statements.

3.4.3. It was therefore concluded that a clear definition of primary users of financial information, and their needs have to be provided before revising the framework.

3.4.4. As IFRSs are directed toward the efficiency of capital markets, investors appear a logical candidate as part of a primary user group. It may well be that others, such as specific categories of creditors, like debenture holders, may be also included. However the needs of these various categories should be clearly considered and defined.

***Comment DASB***

*We agree. See also our comment relating to the tentative view regarding the question "Are general purpose financial statements for all stakeholders a valid concept?"*

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

4.2.10. The focus on profit-oriented entities as a first step, as proposed by the current IASB Discussion Paper, is consistent with the objective set out in the IASCF constitution of helping participants in the world's capital markets in their decision making and reflects the priority given to profit-oriented entities in the IASB's standard setting activity.

4.2.11. However, subject to further analysis of common user needs, it may be possible to extend the scope subsequently to non-profit oriented entities.

***Comment DASB***

*We agree.*

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

4.3.7. No tentative view has been developed as to whether the framework should apply to entities of varying size and public accountability.

4.3.8. It is, however, likely that the focus on a particular category of entity would avoid diluting reporting requirements.

4.3.9 We would welcome views on this matter.

***Comment DASB***

*The users of financial reporting of small, large, listed and unlisted entities will have in general similar information needs. Therefore, we believe that the conceptual framework should focus on the financial reporting of small, large, listed and unlisted entities. We agree with IASB Discussion Paper that the objective of general purpose external financial reporting should be the same for all entities that issue such reports. However, the specific information needs of users will differ as do the accounting resources and expertise available to the reporting entities involved will differ. These differences need to be addressed during the standard setting process. During the standard setting process the balance should be struck between costs and benefits for certain types of entities: simplifications and approximations that are necessary for certain types of entities seem less necessary for others.*

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

5.6.1. The IASB/FASB have postponed their decision to define which elements of financial reporting should be included in the scope of the framework to a later stage in their project. This could mean that the objectives and qualitative characteristics defined in their first discussion paper might be subsequently invalidated. This would be the case if certain forms of financial reporting to be included in the scope did not correspond to the proposed objectives and characteristics. The references in the discussion paper to the central role of financial statements and the prominence of information on assets and liabilities suggest that the scope might be restricted to financial statements and ancillary information.

5.6.2. Although the Boards make no formal distinction between the objectives of financial statements and other kinds of financial reporting in their joint discussion paper, these two concepts cover a wide range of financial information having quite different characteristics.

5.6.3. It is, therefore, suggested that further research is required to clarify the specific objectives of financial statements and determine whether they are compatible with those of other forms of financial reporting. These objectives should be derived from an analysis of the reporting needs of the primary user group.

5.6.4. The Boards in their current discussion paper propose that financial reporting should focus on providing information about an entity's resources and claims. This approach may be suited to appraising stewardship from a historical perspective but is not necessarily suited to other forms of reporting which may rely on trends, forecasts and market prospects. It is therefore necessary to investigate whether such other forms of reporting have the same conceptual basis as financial statements.

5.6.5. Financial statements have different qualitative characteristics to other forms of financial reporting. Other forms of financial reporting, such as management information, are more

subjective or entity specific and therefore would probably not have the same comparability or satisfy the “faithful representation” characteristic.

5.6.6. The differences between financial statements and some other forms of financial reporting suggest that they might have to be treated separately and not necessarily within the same conceptual framework.

### ***Comment DASB***

#### ***Elements of financial reporting***

*No. We agree with the IASB to postpone their decision to define which elements of financial reporting should be included in the scope of the framework to a later stage in their project. In our opinion the conceptual framework should not focus on the current known concepts of financial statements. Conceptually, the proposed framework should focus more broadly on financial reporting, and not be limited to financial statements and supplementary schedules ("current known financial statements"). However, we agree with the IASB Discussion Paper that at least for the time being, users' information needs to continue to be best served by general purpose financial reports. Accordingly, issues related to the financial reporting objective and the qualitative characteristics should be deliberated with a primary focus on financial statements. Once the scope of financial reporting is better defined, the Boards will be able to revisit the objective and qualitative characteristics chapters and determine whether additional changes are needed. Therefore, we believe that it's necessary to perform further research to clarify the objectives of financial reporting instead of the objectives of financial statements.*

#### ***Accountability objective***

*In our opinion the most important comment on the IASB Discussion Paper is the omitting of the accountability objective as a separate objective in the framework. Whether or not part of the decision-usefulness objective, the objective of financial reporting should not be limited to information useful in making investment, credit and similar resource allocation decisions, but should also include information to enable stakeholders to monitor the entity and if necessary to take corrective measures. We suggest to add some examples of needed information to assess accountability like information about past events, realisation and historical cost information.*