

EFRAG
Meeûssquare 35
1000 Brussels

Correspondant Ignace Bogaert	Our references C 2013/043	Your references	Date 03.07.2013
---------------------------------	------------------------------	-----------------	--------------------

Dear Sir, Madam,

Invitation to comment – Getting a Better Framework Bulletin - Prudence

The Belgian Accounting Standards Board (BASB) is pleased to respond to the EFRAG Bulletin – Getting a Better Framework: Prudence issued in April 2013.

Question 1:

Is there a role for prudence in the development of accounting standards? if so, should it (i) focus on recognition and measurement criteria, and the timing of recognition of gains and losses; or (ii) be described as the general exercise of caution?

The BASB is of the opinion that *prudence* should be included in the qualitative characteristics of the Framework as we believe that there is a role for *prudence* in the development of (international) accounting standards.

In Belgium, statutory accounts are rooted in a governance system that emphasised stewardship and ownership, and depended on prudence and realisable values to ensure the protection of capital. By contrast, in the United States, accounts evolved to facilitate trading in securities markets, which meant that more weight was given to neutrality and market valuations.

It is not possible to have accounts that are both consistently *prudent* (emphasising judgment to avoid overstating capital or income) and neutral (emphasising current market valuations to eliminate “bias”).

The move to *neutrality*, or the “absence from bias”, in accounting has been driven by the desire of international standard setters to converge with US standards. But the origins and aims of accounting in the US are very different from those in Belgium.

We believe that *prudence* should be restored in the conceptual framework that underpins all aspects of (international) financial reporting. Thus we agree with the view mentioned in paragraph 27 of the Bulletin.

Question 2:

Does the current Framework adequately reflect the essence of prudence, or do you share the tentative view that its role should be explicitly considered? If so, how would you characterise the level of caution you believe should be observed? References to various views in the bulletin would be helpful.

We refer to our answer to question 1, and are of the opinion that the role should be explicitly considered and agree to the view expressed in paragraph 27.

Question 3:

Are there requirements in current IFRS not mentioned in this Bulletin which fail to reflect prudence? Are there requirements in current IFRS which in your view are overly prudent?

The BASB is of the opinion that use of fair value accounting, and more specifically the application of level 3 fair value measurements fails to reflect *prudence* as it allows preparation of financial statements to determine hypothetical fair values for financial instruments.

The BASB believes that only level 1 & 2 fair value measurement should be allowed for determining fair values.

Under the current IFRS 3 *Business Combinations*, contingent liabilities should be recognised even if it is not probable that an outflow of resources will be required to settle the obligation. The BASB believes that this requirement is *overly prudent*.

Secondly, also within the scope of IFRS 3 *Business Combinations*, at the date of acquisition, all contingent considerations should also be measured at acquisition-date fair value. It often appears in practice that contingent considerations are difficult to fair value at acquisition date, which implies that due to the requirement of IFRS 3, the related liabilities are often over- or understated compared to the actual outflow of economic resources. We are of the opinion that *prudence* was not reflected in this paragraph.

Question 4:

Do you have any other comments on this Bulletin?

We do not have any other comments on the Bulletin.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeve at jan.verhoeve@cnc-cbn.be.

Yours faithfully


Jan Verhoeve
Chairman BASB