Date

24 November 2006

Le Président

Fédération des Experts Comptables Européens

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Sir David Tweedie
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Dear Sir David,

Re: IASB Discussion Paper "Preliminary Views on an improved Conceptual Framework for Financial Reporting"

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its comments on IASB's preliminary views on an improved Conceptual Framework. FEE as a founding organisation of EFRAG has also contributed to the EFRAG consultation process by submitting our views on their preliminary comments. We refer to the EFRAG preliminary comments (draft letter of 26 September 2006) where we are in agreement with their comments. However, we have not considered the final EFRAG submission to IASB in our own response since it is not yet finalised.

2. The Framework is fundamental to the future development of IFRS and, therefore for financial reporting harmonisation in Europe. We welcome the opportunity to debate the content of the Framework and its concepts.

3. 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.

4. What is proposed so far seems like a mixture of existing concepts and ideas from the FASB's Concepts Statements and not a comprehensive reconsideration of all concepts. We assume that the IASB did consider the recent significant studies on users needs and principles of accounting. It would have been helpful if the Paper had included in an appendix the reference to studies considered. The current review of the Framework is too narrow. It should, for example, not only cover softer information such as narrative accounting, but also the continuous reporting model and the complexity of financial statements.

5. As EFRAG also explained it in their preliminary comments, we are especially concerned about the demotion of stewardship as part of decision usefulness. The accountability to stakeholders is an important aspect. 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.

6. Also, as EFRAG pointed out, the final document may well be lengthy. One of the important criteria regarding a Framework text is to be brief and material; lengthening does not of itself improve the understandability of it.

7. Introduction; purpose of Framework:
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.

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. We share EFRAG's preliminary comment that it is unacceptable to issue future standards which are not in accordance with the concepts of the Framework, except as proposed by EFRAG 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.

8. Scope extension:
We agree that it seems to be a good approach to have a Framework that applies to financial reporting and not just to financial statements. However, this extension raises concerns. The meaning of financial reporting is very wide. The Board should clarify that the Framework applies 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, which is not helpful to comment on the scope at this stage. Non-financial information should be outside the scope of the Framework.

We suggest the Board 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.

9. Stewardship:
As noted in our general comments, we share EFRAG's concerns about the proposed treatment of stewardship. We oppose 'downgrading' it to a sub-objective of the decision usefulness objective. We agree with the Alternative View expressed in the Discussion Paper. Stewardship is a basic characteristic of accounting and should remain a separate objective. 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. For example, the objective of stewardship is more important for SME reporting than its predictive value. It is not emphasised and not well reflected in the proposed Framework, partly because it focuses on potential investors. However, we recognize that the concept is not well understood nor is it adequately explained in the current Framework. We suggest to reinstate the concept by using the alternative term 'accountability' which may better reflect the understanding of what is involved.

The ability to forecast future cash flows does not fully capture the requirements of stewardship. The performance of an entity will not be reflected the same way if adopting a stewardship view versus a predictive view. Financial statements have other purposes than just providing information to predict future cash flows of the entity.

10. Users:
The fundamental principles of the Framework should be well supported and not based on assumption. The analysis of users' needs is superficial. The proposed objective of financial reporting is aiming towards investors and their needs. This seems to conflict with the notion of general purpose financial statements. Will this proposed objective of financial reporting fulfil the needs of a wide range of users for different types of business and will general purpose financial statements under IFRS still be appropriate? 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 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.

Regarding the main users, it is not clear to us what will be the implications for standard setting to focus at the same time on present and potential investors. We fear that this new focus may be seen as a way to require more current value measurement. Regarding the inclusion of creditors as main users, we support it but are not convinced of the appropriateness of the differentiation between creditor and trade creditor.

11. Entity perspective:
We are not convinced by the argument of the Board that because financial reports are prepared for a wide range of users, an entity perspective should be adopted. We encourage a more thorough debate on this issue. We prefer to approach the issue from a stakeholders' perspective.

12. Assertions:
We are worried about the implications of some assertions in the document. We share EFRAG's draft comment about a bias in favour of current market-based values and against cost-based measures. It seems to put more emphasis on fair value and reduce the relevance of historical cost. Paragraph QC18 implies that current value amounts more faithfully represent the situation than cost amounts.

Economic reality is not necessarily fair value. We agree that current value is useful to measure the performance of an entity, but changes in fair value in isolation do not necessarily help to predict future cash flows, as presumed in the Discussion Paper. Historical information and accrual accounting can also be useful to assess performance of management and predict future cash flows on this basis.

We are also concerned about the relation between the qualitative characteristics and the proposed order of them. There should not be a hierarchy of importance. The objective should be to strike a balance between the characteristics. We prefer the existing model. Also the IASB considers reliability and relevance as two separate qualitative characteristics, although we believe they are linked and interdependent.

13. Reliability:
We do not agree with replacing the characteristic of reliability with 'faithful representation'. Reliability is a more comprehensive notion. We are not convinced either that there is a problem over the meaning of reliability that needs to be fixed or that faithful representation is a concept that will be better understood. The Basis for Conclusions does not satisfactorily justify why a well established concept is to be replaced. Also the implication of this 'downgrade' for the auditability of financial information should be considered.

14. Substance over form:
Substance over form has been one of the most frequently used accounting expressions for years and represents a fundamental, easily understandable principle. Where legal form plays an important role in determining the conditions of a transaction, the concept has been very useful in accounting decisions, especially in Europe. We believe it is unhelpful to omit this concept on the basis that it is implicit within the characteristics of faithful representation. Omission of this notion could cause confusion in the mind of preparers, auditors and users. There are many situations other than the example of leases mentioned in the Paper where it is difficult to decide which characteristic takes precedence; economic substance or legal form.

15. Completeness:
The Paper states that not only the financial statements should be complete but also the financial reports as a whole. There are difficulties in taking concepts applied to financial statements and simply extending their application to financial reports as a whole. We fear this extension could be dangerous for the quality of reporting. Taking into account the varying interests of users, it cannot be expected that, for example, creditors will read all of the report other than the financial statements in order to obtain a complete view on the entity. This qualitative characteristic should be required for each of the financial reports under the Framework, and not to all as a whole.

16. Verifiability and Audit implications:
The definition of verifiable should include the notion of judgement and the need for reliable evidence. We share the Alternative View of the Board. Our understanding of the definition in QC23 is that verifiability implies that an entity needs to consider the evaluation of a third party to assume the information is verifiable.

We would like again to highlight the risk of putting more emphasis on relevance than on reliability and the consequences for the auditability of information to prefer predictive value of figures rather than historical value. The aim to provide information on the ability to generate cash flow may imply less reliable and verifiable figures.

We would be pleased to discuss any aspect of this letter with you.

Yours sincerely,

David Devlin
President