



**The Institute of  
Chartered Accountants  
in Australia**

17 October 2006

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West VIC 8007  
E Mail: standard@asb.com.au

Dear David,

**Discussion Paper - Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information**

The Institute of Chartered Accountants in Australia (ICAA) welcomes the opportunity to make a Submission on the IASB/FASB Conceptual Framework Discussion Paper, and has benefited from RoundTable discussions hosted by the AASB, the Accounting Bodies Not-for-Profits RoundTable held on 13 October 2006, and along with the Institute's Local and Global Constituents Consultation Program.

Whilst the Institute is supportive of the need for an updated Conceptual Framework, the Institute believes that unless some fundamental amendments are made to the current Draft, there will be a need for the AASB to incorporate a number of significant changes to ensure that the Conceptual Framework caters not just for the Listed Private-for-Profit Sector, but also the Non-Listed Private-for-Profit, Not-for-Profit and Public Sectors. As the Draft Conceptual Framework is currently structured, the Institute is unable to support that Draft without significant amendments. Our detailed comments follow.

The Institute would also appreciate receiving a copy of the AASB's own Submission to the IASB (ideally in final draft form), so that this can be considered in the Institute's Submission to the IASB.

If you require any further information, please contact me.

Yours sincerely

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## SPECIFIC COMMENTS

S2 – The Institute believes that for the Private Not-for-Profit and the Public Sectors, the objective of general purpose external financial reporting is more focused on stewardship and accountability, and this will also apply to the Private-for-Profit Sector where investment decisions are less relevant given the lack of a liquid equities market for non-Listed Companies. In addition for the Public Sector the ‘Investors’ are effectively the Public that predominantly funds Public Sector activities, and for the Private Not-for-Profit Sector it is the Community that receives Services and those that contribute funding to the particular Entities.

S3 – Given the greater relevance on Stewardship and Accountability, the Institute believes that just highlighting Cash Flows is too limiting. Regard also needs to be given to satisfying service obligations.

S9 – To be representationally faithful (reliable), information should be supportable or consistent with know facts but not necessarily always independently verifiable. This is particularly relevant for Contingencies where the exclusion of such information could be misleading compared to inclusion of the information but with a caveat as to its exact magnitude.

IN5 - The Institute notes that the IASB’s (and AASB’s) current requirement to ‘consider’ the Framework where there is no Standard or Interpretation that covers a specific Issue, useful. However as detailed in IN5, the Institute believes it is important to emphasize that the Framework is not a ‘Holy Grail’ for solving contentious Financial Reporting Issues per se.

OB2 – As detailed in S2 above, the Institute believes that the objective of general purpose external financial reporting is wider than Investors.

OB6 - Some explanation of ‘Potential Users’ of Financial Reports needs to be provided as if there is no avenue for a Potential User to actually obtain a copy of the particular Financial Report (ie no legislative requirement to produce - an example would be a privately held Trading Trust). The reality is that the Potential User can never be an Actual User, and therefore is not a ‘Potential User’.

OB16 - The Broadening of the Framework from Financial Statements (Balance Sheet, P&L, Cash Flow and Notes) to Financial Reports (Directors Report and other Commentary), which includes ‘non-financial information’, has implications for Auditors’ Reports which to date have only formed an Opinion on the Financial Statements. The Institute suggests that the view of the International Auditing & Assurance Standards Board should be specifically sought on this Issue.

BC1.24-25 - Whilst the Objective of general purpose external financial reporting should be the same, the justification for exemptions for some Entities on cost-benefits grounds is likely to be contentious, and further justification is required, particularly given that the IFRS for SME Project is nearing finalisation.

BC2.14, BC 2.16-2.18, BC 2.28, BC 2.49 - Faithful Representation is the new Term for what is know as ‘True & Fair’, ‘Substance over Form’, ‘Reliability’ and ‘Verifiability’. Whilst the Institute does not object to the use of this Term, there will need to be clear Commentary that the other well know Terms have not been discarded, unlike ‘Prudence’ and ‘Conservatism’ which are clearly ‘old style’ thinking.

## AUSTRALIAN ISSUES

*QUESTION (a) – The IASB-FASB joint conceptual framework project has an initial focus on for-profit entities in the private sector. In relation to the topics of ‘objective’ and ‘qualitative characteristics’ covered by the Discussion Paper, what matters do you consider require attention if this revised Framework were also to be applied in Australia to not-for-profit entities in the private and public sectors and for profit entities in the public sector?*

The Institute notes that the draft Framework only covers ‘for-Profit entities in the Private Sector’ but that Not-for-Profits’ and the ‘Public Sector’ will also be considered at a later date. This limits the use of the Framework for Australia, as the Australian Accounting Standards Board (AASB) is required to consider these other Groups in its Accounting Standards.

*QUESTION (b) - whether the proposals are in the best interests of the Australian economy.*

Without specific amendments as detailed above to incorporate the Non-Listed Private-for-Profit, Not-for-Profit and Public Sectors, the Institute believes that the proposals in the draft Conceptual Framework are not in the best interests of the Australian economy.

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