

11 October 2006

Professor David Boymal FPNA
Chairman
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne VIC 3000

Dear David

Re: Conceptual Framework – objectives and qualitative characteristics

The National Institute of Accountants has strong objections to aspects of the direction being taken by the International Accounting Standards Board (IASB) in the development of the conceptual framework for financial reporting. Our reservations will also be detailed in a submission to the IASB. We hope the Australian Accounting Standards Board (AASB) finds our remarks useful.

It must be noted from the outset that we as an organisation favour a multi-user model in a conceptual framework rather than one limited to a focus on investors and creditors. We are in an era where social responsibility and obligations to the community are prominent features in our governance framework. Financial reporting standard setters must bear this in mind. The IASB cannot merely cater for the audience that constitutes proprietors and direct investors or creditors in an entity without facing criticism from a broad range of constituents.

Format of the document

The document needs to be reformatted so that the consideration of the general objectives and users groups precedes the reasoning for the adoption of a single objective. A more generic discussion in the front part of the conceptual document is required so that the logic underpinning the IASB's decisions in relation to the framework is stated more clearly. One recommendation for reformatting is to have consideration being given to the various user groups earlier in the document before an objective, which has been singled out by the IASB as being the most significant, appears.

We also question whether a basis for conclusions is required for a conceptual framework given that the framework documents themselves are the basis for conclusions for the standards produced by the standard setter. It would be better to incorporate the explanations for decisions to dissent against the framework. Decisions for the logic of adopting a certain approach should be clear from the text of the framework given the nature of the document.

Definition of financial reporting

While we are content to respond to the document that is presently out for comment it is of great concern to us that the definition of the discipline has not been exposed before the IASB released the objectives and qualitative characteristics. We do not believe that the financial community has been given the complete picture against which to analyse the proposed objectives of financial reporting and it is our intention to comment in more detail on the complete framework documents when the IASB has further exposed its thinking.

The IASB needs to provide greater detail of its vision to ensure that respondents to the various components can have the broader picture in mind when they provide remarks to the standard setter on the various parts of the framework. Furthermore, the IASB did put out two discussion papers – one on measurement on initial recognition and another on management commentary – and the board owes its constituents some degree of explanation as to where these papers may sit in the future development of the conceptual framework.

Objectives rather than an objective

Information can have multiple uses and financial reporting is no exception. To confine the focus of the framework to an objective rather than multiple objectives does not acknowledge this fact. It is critical that the IASB recognises this in its framework rather than persist with a reference to one objective. This becomes difficult to justify when constituents argue that stewardship and accountability form a part of the reason why financial reporting occurs. The constituents are correct to say this is the case because records are being kept for a purpose. One of the purposes is to ensure those in charge of governance of an entity are given information about the financial performance and financial position of an organisation. Another equally relevant and important purpose is the predictability of future cash flows for the purposes of decision making. Neither of those objectives is more important than the other in our view and the IASB needs to take this into consideration.

The reference to accountability in the Australian Statement of Accounting Concepts 2 (SAC 2) is useful as it places the objectives of financial reporting in what we consider is an appropriate context. We would encourage the IASB to consider the wording in the Australian documentation for incorporation into the international framework.

Not-for-profit and public sector limitations

We would prefer the framework not refer only to cash flows specifically but to deal with the notion of inflows and outflows of resources as a general concept. Cash flows are one type of resource but there are entities that have acquired assets in other ways and it is important to ensure that the framework recognises this explicitly.

We would also refer the AASB and the IASB to Concept Statement 4 issued by the Financial Accounting Standards Board (FASB) dealing with objectives of financial reporting for nonbusiness organisations for some

background on dealing with these types of issues in the context of developing a generic framework for financial reporting. It is our preference that these issues be dealt with at the same time rather than be left until later.

The AASB may also wish to explore whether the more generic classification of the users of financial statements in concept statement 4 issued by the FASB is more appropriate for all entities rather than just the nonbusiness sector. For example, the notion of resource providers captures a broad range of users, which is in line with our preference for a focus on multiple users as well as acknowledging the fact that we are, in fact, dealing with inflows of resources into an entity irrespective of whether they have come from investors, creditors or donors.

It is also important that the IASB takes every opportunity to deal cooperatively on the framework with the International Public Sector Accounting Standards Board (IPSASB). Both boards have a need for a robust framework and we see no need for the IASB to merely focus on for-profit issues.

Wide range of users

Shareholders are not the only parties with an interest in the affairs of an entity nor are they the only parties affected by an entity's activities. It follows that the purpose of financial reporting must be aligned with the needs of common users and not merely an ownership group. We would not support the IASB structuring a framework that catered solely for a limited group of users as the broad community has an interest in the entities that the IASB quite rightly seeks to characterise as being publicly accountable in the draft of the exposure draft on accounting for small-to-medium enterprises.

General purpose financial reports

We would support a continuing focus on developing standards for general purpose financial reports. There is still a role for a set of financial statements that provides information for general users. A question remains as to whether the standard setter should set requirements for different reports designed for different users at a future time. We will consider this issue further and respond to both boards in correspondence in the near future.

Qualitative characteristics

We generally support the content of the section on qualitative characteristics but we will review this section further in the light of further developments in the work on the conceptual framework.

We look forward to assisting Australian Accounting Standards Board as the framework project continues.

Kindest Regards

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