



**Board Meeting Handout
Conceptual Framework**

February 20, 2008

PURPOSE

1. The purpose of this Board Meeting is to address and receive the Board's feedback on the following substantive comments made by members of both the IASB and FASB on the pre-ballot draft II Exposure Draft (ED) of the Conceptual Framework:
 - (a) The implications on the other chapters of the Conceptual Framework of adopting the entity perspective for financial reporting have not been clearly identified and presented in the ED
 - (b) The term *accuracy*, as a component of faithful representation, may be misinterpreted by constituents
 - (c) The importance of comparability as a qualitative characteristic is not sufficiently captured in the ED.

IMPLICATIONS OF THE ENTITY PERSPECTIVE

2. Two Board members expressed concern that constituents have not been given a comprehensive explanation of the consequences of adopting the entity perspective of financial reporting. The Board members are concerned constituents may not recognize how far-reaching the consequences of adopting the entity perspective may be.
3. The staff thinks there also may be differing views among Board members and constituents regarding the implications of adopting an entity perspective for other phases of the project. Some think the entity perspective provides a framework for developing the elements definitions that naturally leads to an assets and claims approach. Others think the entity view does not necessarily constrain the elements definitions in that way. The staff is concerned that an opportunity to gain valuable insight into constituent's perceptions about those implications might be lost if constituents are not provided with an appropriate forum in which to express their views.

4. The staff recommends drafting a stand-alone document to address possible implications of the entity perspective. To give the Boards an indication of what the document would cover, the staff prepared the following outline:
 - (a) Describe and contrast the entity and proprietary perspectives of financial reporting as the Boards use those terms
 - (b) Explain the implications on the objective of financial reporting of adopting one perspective over the other
 - (c) Explain how the selection of one basic perspective might influence or constrain work on other phases of the Conceptual Framework, such as the definitions in the elements phase
 - (d) Explain how the selection of one basic perspective might influence or constrain work on the boundaries of the reporting entity. This section would introduce the parent company view of consolidation and describe how it relates to the two basic perspectives.

TIMING OF RELATED DOCUMENTS

5. A related issue is whether the Phase A ED or the Phase D Preliminary Views document (PV) should be delayed pending the completion of the stand-alone document. Whether the Phase A ED and Phase D PV can be adequately understood and analyzed by constituents in their present state may depend on the resolution of the differing views about the implications of adopting the entity perspective. Accordingly, the staff recommends that any Board decision about the publication of the Phase A ED and Phase D PV be delayed at least until the staff is able to complete a draft of the stand-alone and present it to the Boards.

Questions for the Board:

6. Do you agree that a stand-alone document should be drafted to address the potential implications of having adopted the entity perspective for the Conceptual Framework?
7. Do you agree that publication of both the Phase A ED and Phase D PV should be delayed until the staff completes the stand-alone document and presents it to the Boards?

ACCURACY VERSUS FREE FROM ERROR

8. Several Board members object to using the term *accuracy*, a component of faithful representation, to describe *free from error*. An external reviewer also has raised concern regarding the use of the term *accuracy*.
9. Reasons expressed by Board members why they prefer the term *free from error* rather than *accuracy* are:
 - (a) The term *accuracy* could be interpreted to imply a level of precision that may not be achievable under the conditions of uncertainty that often exist with accounting representations.
 - (b) The term *accuracy* is not easily translatable. For example, the expression used in the pre-ballot draft that a faithful representation of an economic phenomenon requires “some minimum level of accuracy” is an oxymoron when translated into French.
 - (c) The term *free from error* is not new in IASB’s literature. The *Framework* defines reliable information as “when it is *free from error* and bias and can be depended upon by users to represent faithfully that which it purports to represent or could reasonably be expected to represent”.
10. Some of the staff is persuaded that the term *accuracy* should be replaced with *free from error*. Others continue to think that accuracy can be adequately described in the ED to mitigate the board members’ concerns, but they are not opposed to using *free from error* if the majority of the Board members prefer it.

Question for the Board:

11. Which term do you prefer – *free from error* or *accuracy*? If you do not like either term, what terms do you recommend that the staff consider?

COMPARABLE FINANCIAL INFORMATION

12. Two Board members noted, while agreeing that comparability is an enhancing qualitative characteristic (QC), the discussion of the importance of having comparable information should be strengthened. Board members are concerned that:

- (a) Because comparability is an enhancing QC, some constituents may perceive that an enhancing QC is not necessary
 - (b) The pre-ballot draft ED notes that “Permitting alternative accounting methods for the same economic phenomena may be undesirable, because to do so diminishes comparability.” A Board member recommended that the ED should expand upon that notion. That Board member thinks an accounting standard should not allow different entities to apply different accounting methods (or policies) for similar economic phenomena. Specifically, the Board member is concerned that if an accounting standard implicitly allows different accounting methods to account for a similar accounting phenomenon, users may not be aware of the different types of ways to account for that accounting phenomenon and the standard setters will have failed the objective of financial reporting, which is to provide financial information *for users to make decisions*.
13. With regard to the first concern, the staff will make some changes to the explanatory text on comparability in the ED to emphasize the link between comparability and the fundamental QCs. With regard to the second concern, the staff will work with the concerned Board member to enhance the description of comparability in the ED.

Question for the Board:

14. Do the Boards agree with the staff’s recommendations for issues A and B?