

14 January 2014

IFRS Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Via website [www.ifrs.org](http://www.ifrs.org)

Dear Chairman,

### **Discussion Paper: A Review of the Conceptual Framework for Financial Reporting**

The Australian Institute of Company Directors welcomes the opportunity to comment on the Discussion Paper: A Review of the Conceptual Framework for Financial Reporting (Discussion Paper) released by the International Accounting Standards Board (IASB) in July 2013.

The Australian Institute of Company Directors is the second largest member-based director association worldwide, with individual members from a wide range of corporations; publicly-listed companies, private companies, not-for-profit organisations, charities and government and semi-government bodies. As the principal Australian professional body representing a diverse membership of directors, we offer world class education services and provide a broad-based director perspective to current director issues in the policy debate.

As Australia adopted International Financial Reporting Standards (IFRS) for all private sector reporting entities (listed and unlisted) in 2005 and the Corporations Act in Australia, under section 295(4) requires the directors of the entity to approve the financial report and as such a director may be held personally liable for any errors or misstatements within the financial report. Thus, the quality and relevance of the accounting standards are of keen interest to Australian directors.

Previously, the Australian Institute of Company Directors has raised concerns that financial reporting is no longer fit for purpose and as such is supportive of the IASB revisiting the Conceptual Framework. As highlighted in our submission in response to the IASB's Agenda Consultation on 30 November 2011, we believe that "the finalisation of the Conceptual Framework is of critical importance"<sup>1</sup>.

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<sup>1</sup> [http://www.companydirectors.com.au/Director-Resource-Centre/Policy-on-director-issues/Policy-Submissions/2011/~/\\_/media/Resources/Director%20Resource%20Centre/Policy%20on%20director%20issues/2011/SUBM%202011%20IASB%20IFRS%20Foundation%20on%20Agenda%20Consultation%202011%20F.ashx](http://www.companydirectors.com.au/Director-Resource-Centre/Policy-on-director-issues/Policy-Submissions/2011/~/_/media/Resources/Director%20Resource%20Centre/Policy%20on%20director%20issues/2011/SUBM%202011%20IASB%20IFRS%20Foundation%20on%20Agenda%20Consultation%202011%20F.ashx)

The Australian Institute of Company Directors will not be providing comments in respect of the questions set out in the Discussion Paper. However, below are the Australian Institute of Company Directors general comments with respect to the Discussion Paper.

1. The Australian Institute of Company Directors recommends that the revised Conceptual Framework retain some of the purposes that are currently set in the Conceptual Framework and **does not limit the primary purpose** to that which is set out in paragraph 1.26 of the Discussion Paper. This paragraph states that the primary purpose of the Conceptual Framework is to assist the IASB when developing or amending an accounting standard. We are of the view that the additional purposes of the Conceptual Framework, continue to be relevant and useful, especially with respect to the role the Conceptual Framework plays in assisting preparers, auditors and users of financial statements in understanding the underlying concepts that form the basis of the recognition, measurement, presentation and disclosures in the financial statements.
2. As the Conceptual Framework is only reconsidered infrequently, it is critically important to ensure that the concepts included are at a “principles” level to ensure the longevity of any proposed Framework. The Conceptual Framework needs to be a **statement of clearly set out principles**, without trying to detail a myriad of potential complexities. This is likely to result in a more robust Framework that would be easier to apply. It is important to ensure that the Framework is comprehensive, addressing all the significant issues raised in response to the Discussion Paper and as such a longer timeframe may be required to finalise the Framework.
3. When revising the Conceptual Framework, the Australian Institute of Company Directors is of the view that the IASB needs to write the Framework in **plain language** which enables the users of the Conceptual Framework to easily understand the key accounting concepts included therein.
4. The Australian Institute of Company Directors supports the proposal to revise the Conceptual Framework. However, we are of the view that the Discussion Paper does not provide a strong foundation from which to develop the revised Framework. The Discussion Paper is overly focused on narrowly resolving current issues rather than providing a suitably **aspirational forward looking foundation** for the development of accounting standards. The areas of the Discussion Paper where this is most obvious include: the distinction between liabilities and equities, measurement, other comprehensive income and presentation and disclosure.
5. As a result of this narrow approach the Discussion Paper has **delegated a number of key conceptual issues** into standard level projects, rather than within the revision of the Conceptual Framework where they would be more suited, for example performance reporting and presentation and disclosure.
6. There has been increasing concern both within Australia and internationally about the **complexity of financial statements**. The concern is that the financial statements no longer reflect the underlying economic realities of the transactions that form the basis of the financial statements. The Australian Institute of Company Directors encourages the IASB to consider when revising

the Conceptual Framework how the revised Framework may assist in reducing the complexity of financial statements.

7. The **changing definitions for assets, liabilities and equity** are a paradigm shift in the way assets and liabilities are identified. Currently, accounting records are focused on transactions that generate an inflow or outflow of economic benefits, rather than “events” that result in access to an economic resource that is capable of producing an economic benefit. The Australian Institute of Company Directors is of the view that the IASB needs to consider the impact and potential costs that may be incurred by entities, when applying the revised Conceptual Framework and in capturing these items into the accounting records.
8. The IASB needs to carefully consider the proposals in Section 5, *Definition of equity and distinction between liabilities and equity instruments* of the Discussion Paper, relating to the **disclosure of future net cash flows**. The Australian Institute of Company Directors is of the view that these proposals are contrary to current views on prospective information and reliable measurement and as such represents a significant shift in the entity’s reporting responsibilities, as well as the potential for liability to both the entity and its directors given the uncertain nature of forward looking disclosures, particularly with the lack of adequate and appropriate safe harbours in many jurisdictions. Our recommendation is that the IASB needs to provide a detailed explanation of the potential changes and the usefulness of such information needs to be debated by all key stakeholders.
9. The Australian Institute of Company Directors encourages the IASB to include within the Conceptual Framework a definition and **detailed conceptual discussion of going concern**. This key accounting concept is often misunderstood by users. Information about going concern is of significant value to investors and other users. Guidance about this issue should not be left to audit standards and the audit report for consideration. There is an increased focus on going concern by prudential and market regulators. The IASB should consider activities of groups such as the Financial Reporting Council in the United Kingdom that has specifically considered the issue, and particularly the inter-relationship between going concern and information included in the financial statements, the directors view of going concern and the auditors assessment of an entity’s ability to continue as a going concern.

We hope that our comments will be of assistance to you. If you are interested in any of our views please do not hesitate to contact me or Nicola Steele on +61 2 8248 6600.

Yours sincerely,



John HC Colvin  
Chief Executive Officer and  
Managing Director