

This series presents the PricewaterhouseCoopers Point of View on a range of auditing, accounting and regulatory issues affecting our clients and our profession. These positions represent the collective view of our network of firms.

Convergence of conceptual frameworks

What are the issues?

The IASB and the FASB have launched a major joint project to improve and align their conceptual frameworks. The conceptual framework is important because it will be a point of reference for the standard setters as they develop new standards, as well as for preparers and other users, over the coming years. But significant questions arise as to whether a converged framework is desirable; whether it should be a framework for corporate reporting as well as financial reporting; and its purpose, authority and intended audience.

What is our response?

- 1 The convergence of the conceptual frameworks underpinning IFRS and US GAAP is a desirable and necessary step towards convergence around high quality, principles based accounting standards.** Achieving a common set of high quality, principles based accounting standards will help drive convergence of financial reporting and contribute to the free flow of market capital (see also our *Point of view Issue 2* November 2006 on *Convergence of IFRS and US GAAP*). Although convergence will be a long-term process, work to align the present conceptual frameworks is an important step towards that goal and should be a priority.
- 2 There is a need for a fundamental review of the financial and corporate reporting model to establish the scope of a comprehensive framework for communicating to the market and the development of simpler, principles based standards.** These issues go far beyond the Boards' present framework project. They are at the heart of designing reporting standards that meet the information needs of the capital markets of the 21st century. The objective should be to focus on communicating information that allows investors to assess performance effectively. Also, corporate reporting embraces not only the financial statements, but management commentary and quarterly or half-yearly announcements. Preparers currently face a multiplicity of requirements from different authorities relating to the preparation of market information. It will therefore be helpful if there is a common framework for corporate reporting to guide preparers, investors and regulators.

- 3 Observance of the conceptual framework should be mandatory for the standard setters in writing new standards, and the framework should be followed by preparers and other users where there are gaps in the standards.** We believe that the framework, once agreed, should be used and respected – including by the standard setters who should comply with the framework as they develop new standards. This does not mean that the framework will never change. If the Boards consider in exceptional cases that a new standard that would deviate from the framework provides the best answer, then they should also change the framework. At the same time, it is important that preparers understand that the framework may have a direct consequence on their reporting – and should be followed where the specific standards do not provide guidance.

What does this mean?

The debate around the framework is critical because it will help shape the standards for the years to come. Although we believe a fundamental review of the reporting model is needed, we agree the Boards should, as part of their current project, urgently review the areas in which the present standards are not consistent with each other or with the frameworks.

Preparers, auditors and users presently take comparatively little interest in the framework because it seems remote from the day-to-day business of applying the standards and because of the coverage and extent of detail of the existing standards. Depending on the authority of the new framework, and the extent to which standards in the future adopt – as we believe they should – a more principles based style, the framework should become far more important. That is why all interested parties should contribute to the debate as the Boards continue to issue their consultation papers on the framework.

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