



30 Cannon Street, London EC4M 6XH, United Kingdom  
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411  
Email: [iasb@iasb.org](mailto:iasb@iasb.org) Website: [www.iasb.org](http://www.iasb.org)

International  
Accounting Standards  
Board

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### INFORMATION FOR OBSERVERS

**Board Meeting:** 16 October 2007, London

**Project:** Conceptual Framework: Phase A

**Subject:** The Return of the *Objective of Financial Reporting*  
(Agenda Paper 5A)

---

### INTRODUCTION

1. At the September meeting, the staff suggested that the objective of financial reporting is:  
  
*The objective of general purpose external financial reporting is to provide financial information about the reporting entity that is useful to current and potential investors and creditors in making decisions in their capacity as capital providers.*
2. At that meeting, some board members suggested including the term *and others* after the term *investors and creditors* in the objective. One Board member also pointed out that the ED on SME proposes that entities that have public accountability<sup>1</sup> shall apply full IFRSs. In their view, the objective in

---

<sup>1</sup> Public accountability as defined in the ED for SMEs is:

Accountability to those present and potential resource providers and others external to the entity who make economic decisions but who are not in a position to demand reports tailored to meet their particular information needs. An entity has public accountability if:

- (a) it has issued (or is in the process of issuing) debt or equity instruments in a public market; or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment bank.

paragraph 1 does not acknowledge that there may be other *purposes* of general purpose external financial reports (GPEFR); and the stated objective may not be complete.

3. In addition, two Board members observed that that objective does not explicitly acknowledge other *users* who are not capital providers (eg employees, government agencies) who legitimately use GPEFR.

## ANALYSIS

4. The objective as currently drafted does not explicitly include other users who are not capital providers. However, the staff draft that in the IASB's September<sup>2</sup> meeting noted in the text of the document that:

Information that meets the needs of external investors and creditors is also likely to be useful to others such as suppliers, customers, employees, governments and their agencies, and members of the public. However, financial reporting is not primarily directed to those other groups.

5. This was to reflect the Board's decision in June 2007. A relevant extract of the agenda paper in June<sup>3</sup> is:

31. The staff also recommends that the ED continue to acknowledge that general purpose external financial reporting will not be able to meet all the needs of all users. When setting standards, the Boards endeavour to meet the needs of the primary user group first. Other users might find the resulting financial reporting useful for their needs as well.

6. As the current objective does not explicitly reflect these other users, the objective could be amended as follows:

***The objective of general purpose external financial reporting is to provide financial information about the reporting entity that is useful to current and potential investors and creditors and others in making decisions in their capacity as capital providers, and other users who use that information.***

[New text underlined]

---

<sup>2</sup> IASB Agenda Paper

<sup>3</sup> IASB Agenda Paper 9

## STAFF RECOMMENDATION

7. However, the staff continue to think that the objective of financial reporting should be focused on the needs of the capital providers – the primary user. This reflects the Board’s objective to develop high quality financial accounting standards to help *participants in the world’s capital markets* and other users make economic decisions<sup>4</sup>. [emphasis added]
8. Furthermore, the staff think that having that second phrase in the objective detracts from the main focus that the objective is to the primary user group. The staff thinks that an objective of financial reporting should be precise and explains what is Board’s focus.
9. However in drafting the ED, the staff will better clarify in the text of the ED that other users that are not present or potential capital providers do use financial reports in making decisions. These potential users may find financial reports as a good starting point to meet their needs.
10. The staff seek the Board’s advice on whether you prefer to:
  - a. Leave the objective simple and rely on text in the ED to explain that there are other users who may use GPEFR (as proposed in the staff draft), or
  - b. Expand the objective to explicitly acknowledge other users.
11. If you choose option b, the staff will circulate an amended objective offline.

---

<sup>4</sup> IASCF Constitution paragraph 2a