EFRAG
European Financial Reporting Advisory Group

Reliability

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on behalf of the five partners

Reliability

Background

Before 2010

- Reliability one of four principal QCs. Included:
  - Freedom from error and bias, faithful representation, substance over form, neutrality, prudence, completeness.
- Acknowledged need to balance QCs (¶45)
  - "the relative importance of QCs in different cases is a matter of professional judgement"

As revised in 2010

- Faithful representation, includes:
  - completeness, neutrality, freedom from error
  - verifiability an 'enhancing' characteristic

Relevance and faithful representation

Framework ¶QC16

- can be a faithful representation if appropriate process used, estimate described, uncertainties disclosed
- …best information may be subject to large uncertainty

Framework ¶QC18

- Identify most relevant information
- Can it be faithfully represented? (Perhaps through disclosure?)
- If not, consider next most relevant information

Thus most relevant information is to be used even if 'faithful representation' is low

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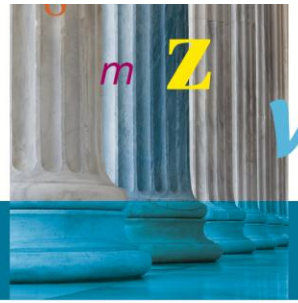
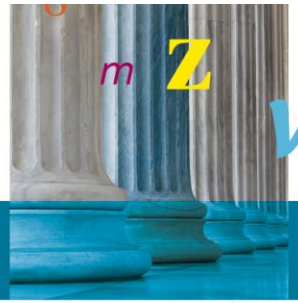
Faithful representation



- A representation of an estimate can be faithful, if disclosures are adequate
- An inappropriate measurement basis may be ‘representationally faithful’, but may lack relevance

(CF 2010, ¶QC15, QC16)

View 1–Nothing has been lost



- It was just a clarification
- There is no trade-off
- Reliability can be obtained by disclosure

View 2– An important step has been lost

- There was a change (not just clarification)
- There was a trade-off
- More focus on reliability is needed
- Reliability is not just a matter of disclosure

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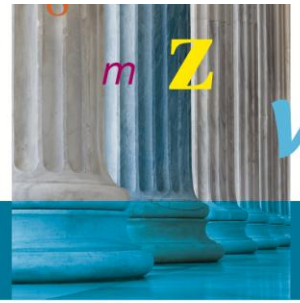
Tentative view



- There was a change and now reliability is a matter of disclosure
- Reliability is at least as important as relevance and disclosure cannot always compensate
- Reliability should be reinstated as a fundamental characteristic

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Discussion Paper

“Because the existing Conceptual Framework no longer defines reliability, the recognition criteria cannot retain that term”

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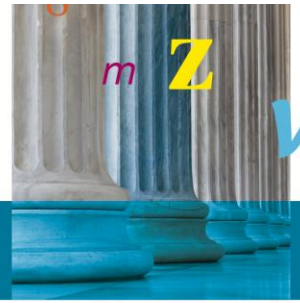
Discussion Paper Proposals



- Assets and liabilities recognised unless:
  - not relevant; or
  - no measure is representationally faithful, irrespective of disclosure
- Possible guidance on relevance, including
  - wide range of possible outcomes
  - low probability of inflow or outflow

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Questions to consider

- Should the Framework note the need to balance relevance and reliability?
- Should the most relevant measure that can be faithfully represented be used?
- Are there any measures that cannot be faithfully represented (with disclosure)?
- Is reliability relevant to parts of the Framework other than recognition?

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