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STAFF PAPER

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IASB Meeting

Project	**Conceptual Framework**		
Paper topic	Feedback summary—Chapter 1—*The objective of general purpose financial reporting*		
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Purpose of paper

1. This paper summarises the feedback received on the discussion of the objective of financial reporting in Chapter 1 of the Exposure Draft *Conceptual Framework for Financial Reporting* ('the Exposure Draft').

2. This paper provides a high-level summary of the comments received. Where appropriate, we will provide a more detailed breakdown of the comments for future meetings.

Summary of key messages

3. Around two-thirds of respondents commented on increasing the prominence of stewardship within the objective of financial reporting:

   (a) many agreed with the treatment of stewardship in the Exposure Draft. Some also asked for more guidance on:

      (i) the term 'stewardship' and its relation with the term 'accountability';

(ii) the impact of increasing the prominence of stewardship on future standard-setting decisions, including how to resolve possible conflicts when trying to provide information for both resource allocation and stewardship purposes; and

(iii) the link between the discussion of the objective of financial reporting (and buy, sell and hold decisions) and the discussion of stewardship;

(b) some respondents suggested that stewardship should be included as an additional objective of financial reporting; and

(c) some respondents disagreed that more prominence should be given to stewardship and suggested that no changes to the current description of the objective of financial reporting in the *Conceptual Framework for Financial Reporting* ('the *Conceptual Framework*') are necessary.

4. Although the Exposure Draft did not propose any changes to the description of the primary users of financial statements, some respondents commented on the primary user group. Their views differed, with some respondents proposing to expand the user group to include management, regulators, customers, auditors, employees and/or the public at large, while others proposed narrowing the primary user group to holders of ordinary shares only.

Structure of paper

5. This paper summarises comments on:

(a) giving more prominence to stewardship (paragraphs 6–26);

(b) primary users (paragraphs 27–33); and

(c) other issues related to Chapter 1 (paragraphs 34–38).

Giving more prominence to stewardship

Exposure Draft proposals (paragraphs 1.3–1.4, 1.13–1.23 and BC1.6—BC1.10)

6. The description of the objective of general purpose financial reporting in the Exposure Draft had been carried forward from the current version of the *Conceptual Framework*:

> The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.

7. The Exposure Draft proposed to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources.

8. To achieve this, the Exposure Daft proposed to reintroduce the term 'stewardship' and to explicitly explain that investors', lenders' and other creditors' expectations about returns (that affect their decisions to buy, sell or hold investments and provide or settle loans) depend not only on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity, but also on their assessment of management's stewardship of the entity's resources. The Exposure Draft then described what the notion encapsulates in paragraphs 1.22–1.23 and referred to stewardship in the rest of the *Conceptual Framework* when appropriate.

9. The Basis for Conclusions on the Exposure Draft explained:
   (a) why the Board proposed to make the changes described above; and
   (b) the reasons why the Board rejected the idea of identifying the provision of information to help assess management's stewardship as an additional, and equally prominent, objective of financial reporting. Those reasons were:
      (i) information about management's stewardship is part of the information used to make decisions about whether to buy, sell

or hold an investment (ie resource allocation decisions). For example, information about stewardship would inform a decision to hold an investment (and perhaps improve management) instead of selling it; and

(ii) introducing an additional primary objective of financial reporting could be confusing.

Summary of feedback

10. Question 1(a) of the invitation to comment asked respondents whether they support the proposal to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources. Around two-thirds of respondents answered the question.

11. Many of those who commented, representing a broad cross-section of geographical regions and types of respondent, supported the Board's proposal to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources. They cited the following reasons:

(a) it acknowledges management's fiduciary responsibility to those dependent upon their decisions for their effective and efficient use of the entity's resources and emphasises that managers are the agents of other stakeholders to whom they must be held accountable.

(b) because stewardship requires accountability to investors, it influences behavioural changes in decision-making, positively affecting an entity's long-term performance and success.

(c) information needed to assess management's stewardship and the prospects of future cash flows are not necessarily the same.

(d) the changes, when reflected in relevant IFRS Standards, will strengthen the confidence with which investors use IFRS-compliant financial statements in taking investment decisions.

(e) stewardship is a key element of communication between the entity's management and the external users of the entity's financial statements.

(f) without acknowledging the need to provide information for assessing stewardship, financial reporting may become excessively focussed on forward-looking predictions and estimates of future cash flows.

(g) financial statements are published after the period to which they relate and are therefore confirmatory. Accordingly, their value to investors is partly in contributing to assessing management's stewardship of the entity's resources.

(h) there is some academic evidence to support the need for increasing the prominence of stewardship within the objective of financial reporting.

(i) assessment of management's stewardship is not a new concept; it is already inherent in the existing *Conceptual Framework* and in financial reporting, so it should be acknowledged and applied consistently.

(j) stewardship is an important objective, which company management and preparers should consider when making estimates and judgements in financial statements.

12. Some of those who supported giving more prominence to the notion of stewardship within the overall objective explicitly stated that it should not be introduced as an additional objective of general purpose of financial reporting.

13. However, some respondents, mostly from Europe, suggested that stewardship should be included as an additional objective of financial reporting, separate from decision-usefulness.

> However, we believe the framework ought to go further by establishing stewardship as an objective in its own right, rather than framing it as a sub-set of the decision-usefulness objective. In some cases, different, or additional information may be required to meet these two objectives, therefore it may not be sufficient that stewardship is treated as part of decision-usefulness. In addition, when assessing stewardship, there is evidence that there are fewer alternative sources of information available to users, therefore the role of the financial statements is arguably more important than in a decision-

usefulness objective. *The Institute of Chartered Accountants in Scotland (ICAS)*

14. A few of those who suggested that assessment of management's stewardship should be included as a separate objective of financial reporting thought that it should in fact be the primary objective of financial reporting.

15. Respondents who suggested including stewardship as a separate objective of financial reporting cited many of the same reasons for increasing the prominence of stewardship as those listed in paragraph 11. However, they placed more emphasis on:

    (a) a possible difference in information requirements for resource allocation decisions and for stewardship purposes. For example, some expressed the view that fair value accounting may be more useful for valuation decisions, whereas the stewardship role of accounting favours more reliable measures that are less volatile (for example, historical cost);

    (b) the importance of providing information needed to assess management's stewardship for long-term investors, including for assessment of management's strategic decisions; and

    (c) the aspect of holding management to account and support for corporate governance.

16. A few respondents suggested that, instead of including an additional objective of financial reporting, the prominence of stewardship could be increased by modifying the current objective. They thought that the objective could be described more broadly and include providing information for making decisions not only on buying, selling or holding investments but also on assessing management's stewardship (eg decisions on management appointments and remuneration).

17. In contrast, some respondents disagreed that more prominence should be given to the importance of providing information needed to assess management's stewardship of the entity's resources and thought that no changes should be made to the description of the objective of financial reporting in the *Conceptual Framework*. They cited the following reasons:

    (a) the assessment of management's stewardship is not the primary focus of all user groups; it may be more relevant to owners than to other primary users.

(b) the term ‘stewardship’ is interpreted differently by different parties. The Exposure Draft does not provide a definition of stewardship, so there is no clarity about how to interpret it.

(c) the changes proposed in the Exposure Draft in relation to stewardship do not seem to have had much impact on the rest of the *Conceptual Framework*.

(d) financial statements cannot provide all information needed for assessment of management’s stewardship. They should concentrate on providing financial information needed for making resource allocation decisions. Increasing the prominence of stewardship may lead to additional disclosures.

(e) increasing the prominence of stewardship introduces a dual purpose of financial reporting. This may have opposing effects on specific Standards. For example, the stewardship purpose may require more prudence in the form of asymmetric prudence (conservatism), which could conflict with the objective of providing useful information to predict cash flows.[1]

Suggestions for improving/expanding the discussion of stewardship

18. Some respondents, representing a broad cross-section of geographical regions and types of respondent, commented on the meaning of the term ‘stewardship’, noting that different parties interpret it differently. Some of them thought that the different interpretations contribute to translation difficulties and inconsistent application of the notion.

19. A few respondents asked for an explanation of the link between the term ‘stewardship’ and the term ‘accountability’.

> ESMA encourages the IASB to further clarify the meaning and definition of stewardship so that the term can be properly understood and translated to different languages enabling the assessment and evaluation of its interaction with different

[1] More information on respondents’ comments on prudence is provided in AP 10B—*Feedback summary—Chapter 2—Qualitative characteristics of useful financial information*.

> corporate law/corporate governance frameworks. If appropriate the IASB should consider clarifying that the concept of stewardship is called 'accountability' in some jurisdictions. *European Securities and Markets Authority (ESMA)*

20. A few respondents asked for clarification of the link between the *Conceptual Framework* and the IFRS Foundation's mission statement, which states:

> Our mission is to develop International Financial Reporting Standards (IFRS) that bring transparency, accountability and efficiency to financial markets around the world. Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.
>
> …
>
> IFRS strengthens **accountability** by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our standards provide information that is needed to hold management to account. As a source of globally comparable information, IFRS is also of vital importance to regulators around the world.

21. Some respondents asked for an explanation in the *Conceptual Framework* of the effect of increasing the prominence of stewardship:

    (a) on other sections of the *Conceptual Framework*;

    (b) on the Board's future standard-setting decisions, including:

        (i) whether it will lead to additional disclosure requirements; and

        (ii) how it will affect future measurement decisions. A few respondents also asked for clarification that giving more prominence to stewardship does not imply the use of historical cost as the preferred measurement basis.

    (c) on preparers—how are they to provide information for the assessment of stewardship?

22. A few respondents were concerned about the possibility of conflicts when trying to provide information for both resource allocation and stewardship purposes and asked

the Board to explain how such conflicts would be resolved. A few respondents expressed an opinion that information for stewardship purposes tends to focus on backward-looking information, while information for predicting cash flows tends to focus on forward-looking information.

23. A few respondents expressed the view that that the discussion of the objective of financial reporting and buy, hold and sell decisions needs better linkage with the discussion of stewardship.

24. Some respondents also commented that the extent to which financial reporting can assist with assessing management's stewardship is limited. They asked for a clarification about the role of financial reporting in providing information about stewardship.

25. A few respondents argued that the notion of stewardship bears a strong link to the notion of business activities and that the notion of business activities should be better articulated in Chapter 1.

26. A few respondents provided other suggestions for expanding or improving the guidance on stewardship. We will analyse these suggestions for future meetings.

Other comments on Chapter 1—primary users

Exposure Draft proposals (paragraphs BC1.11–BC1.13)

27. The Exposure Draft carried forward the existing *Conceptual Framework* description of primary users of financial reporting. They are described as existing and potential investors, lenders and other creditors.

28. The Basis for Conclusions explained that the Board proposed no changes to the description of the primary user group because:

    (a) respondents to the Discussion Paper raised no new issues that the Board had not considered when Chapter 1 was originally developed; and

    (b) as explained in paragraph 1.8 of the Exposure Draft, focussing on the common information needs of the primary users does not prevent a reporting entity from including additional information that is most useful to a particular subset of primary users.

29. In addition, paragraphs BCIN.35–BCIN.43 of the Basis for Conclusions explain why long-term investors had not been identified as a particular type of user with specific information needs. The summary of feedback on the implications of long-term investment is provided in AP 10L *Feedback summary—Business activities and long-term investment*.

Summary of feedback

30. The invitation to comment on the Exposure Draft did not include a specific question on the description of the primary user group. However, some respondents commented on the topic.

31. Some of those who commented thought that the primary user group in the *Conceptual Framework* is defined too narrowly:

    (a) Some respondents, mostly from France, suggested that it should be expanded to include management. These respondents argued that this would enhance the role of financial reporting as a means of communication between management and external users and would support provision of information for stewardship purposes.

    (b) A few European regulators suggested that the importance of financial reports for regulators and supervisory bodies should be emphasised by either including them in the primary user group or acknowledging the vital role of financial statements for regulators. They argued that even though regulators have the power to require entities to provide additional information, there are considerable advantages for both regulators and entities if regulators can obtain key information they need from general purpose financial reports.

    (c) A few respondents also suggested including customers, employees, auditors, co-operative members and/or the public at large in the primary user group.

32. On the other hand, a few respondents expressed a view that the primary user group should not be broadened, because financial reports could lose focus as a result. One user representative body suggested that only holders of ordinary shares should be identified as primary users, because they are the providers of risk capital and bearers of residual risk, while other stakeholders are protected by contractual and other rights.

33. Other comments on the description of the primary user group included suggestions:

    (a) for the *Conceptual Framework* to concentrate on the common information needs of various user groups instead of identifying a primary user group. One group of academics noted that common communication needs were addressed in the Exposure Draft *IFRS Practice Statement Application of Materiality to Financial Statements*;

    (b) to give owners higher prominence compared to creditors and to re-establish the statement from pre-2010 *Framework* that because investors are providers of risk capital to the entity, 'the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy'; and

    (c) to link the description of primary users' needs with the communication objective of financial reporting, permitting management to report how they see the business and how the entity creates value.

Other issues related to Chapter 1

34. A few respondents commented on other aspects of Chapter 1.

35. A few respondents suggested that the existing *Conceptual Framework* should have a section dealing with the scope of financial reporting. Suggestions for such guidance included:

    (a) including in the *Conceptual Framework* a clarification that information in financial statements complements other forms of reporting, including Integrated Reporting;

    (b) clarifying the relationship between information contained in general purpose financial reports and general purpose financial statements; and

(c) setting a broad scope for financial reporting and elaborating on the reference to meeting common information needs.

36. A few respondents also discussed the effect of the evolution of user information needs on the ability of financial reporting to provide a comprehensive view of an entity's performance, including stewardship. They suggested that the *Conceptual Framework* should include a section that discusses Integrated Reporting and similar developments and their role in meeting users' needs.

37. A suggestion for the medium term was to clarify that the concepts articulated in the *Conceptual Framework* are transaction-neutral, ie capable of being applied by all reporting entities, irrespective of their operating structure or the sector in which they operate—private or public. This respondent thought it was important to acknowledge the desirability of having a single conceptual framework that can be applied by all reporting entities around the world.

38. One user representative body thought that the Board should give greater prominence to paragraph 1.8 of the existing *Conceptual Framework* about including additional information that is most useful to a particular subset of primary users. They thought that entities should be aware that they should seek to provide relevant information rather than merely focus on compliance with IFRS Standards.