STAFF PAPER

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Project	**Conceptual Framework**		
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Purpose and structure of paper

1. The purpose of this paper is to discuss whether any changes are needed to the discussion of stewardship in response to feedback received on Chapter 1—*The objective of general purpose financial reporting* of the Exposure Draft *Conceptual Framework for Financial Reporting* ('the Exposure Draft'). In particular, this paper:
   - (a) provides background and summarises feedback on the discussion of stewardship in the Exposure Draft (paragraphs 3–15); and
   - (b) discusses whether it is necessary to:
     - (i) modify the description of the objective of financial reporting in Chapter 1 to provide a better link with the need for information to assess management's stewardship of the entity's resources (paragraphs 19–36);
     - (ii) provide additional explanation of how the Board understands the term 'stewardship' (paragraphs 37–46); and
     - (iii) consider how to address possible conflicts when providing information for both assessment of future cash flows and assessment of stewardship (paragraphs 47–52).

Summary of staff recommendation

2. The staff recommend:

   (a) clarifying the link between the objective of financial reporting and stewardship by explaining resource allocation decisions as:

      (i) decisions to buy, sell or hold equity and debt instruments;

      (ii) decisions to provide or settle loans and other forms of credit; and

      (iii) decisions needed to exercise other rights while holding investments, such as rights to vote on or otherwise influence management's actions;

   (b) modifying paragraphs 1.22–1.23 of the Exposure Draft to explain which aspects of management's stewardship responsibilities can be assessed using information in financial reports;

   (c) continuing using the term 'stewardship' in the *Conceptual Framework for Financial Reporting* ('the *Conceptual Framework*') and indicating that there is no significant difference in the terms 'stewardship' and 'accountability' in the context of the *Conceptual Framework*; and

   (d) indicating in the Basis for Conclusions on the revised *Conceptual Framework* that:

      (i) increasing the prominence of stewardship within the objective of financial reporting does not imply a preference for either a historical cost or a fair value measurement basis; and

      (ii) if when developing an IFRS Standard, the Board faces a situation when different information is required for the assessment of future cash flows and for the assessment of management's stewardship, it will have to exercise judgement to seek the information set that is intended to meet the needs of the maximum number of users in cost-beneficial ways.

Background

3. The current version of the *Conceptual Framework* describes the objective of general purpose financial reporting as:

> … 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.[1]

4. This description does not include the term 'stewardship'. However, Chapter 1 states that to assess an entity's prospects for future net cash inflows users of financial statements need information about how efficiently and effectively the entity's management and governing body have discharged their responsibilities.

5. In response to the feedback that the Board had received on the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*, the Exposure Draft proposed to reintroduce the term 'stewardship' and 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.

6. To achieve this, the Exposure Draft proposed to identify the information needed to assess the stewardship of management as separate from the information needed to help users assess the prospects for future net cash inflows to the entity. However, providing information to help assess the stewardship of management is still considered part of the information needed to meet the overall objective of financial reporting—that is to provide information that is useful for making resource allocation decisions (see Appendix A).

7. In addition, the Basis for Conclusions on the Exposure Draft explained 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:

[1] See paragraph OB2 of the *Conceptual Framework*.

(a) 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

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

Summary of feedback

8. The invitation to comment on the Exposure Draft 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.

9. 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 for the effective and efficient use of the entity’s resources.

(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 for 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) 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.

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

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

(h) 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.

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

10. 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 for the reasons explained in paragraph 7.

11. However, some respondents, mostly from Europe, suggested that stewardship should be included as an additional objective of financial reporting, separate from decision-usefulness. Moreover, a few of them thought that it should in fact be the primary objective of financial reporting. These respondents cited many of the same reasons as those listed in paragraph 9 but 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.

12. 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).

13. 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 information that is useful for predicting cash flows.

14. In addition, some respondents asked for more guidance on:

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

(b) the term ‘stewardship’ and its relation with the term ‘accountability’;

(c) 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.

15. At the April 2016 Accounting Standards Advisory Forum meeting some participants suggested that the discussion of stewardship in the *Conceptual Framework* should be developed further because this topic is important for users of financial statements.

Staff analysis

16. In the light of the feedback received on the Exposure Draft, the discussion in paragraphs 19–36 analyses whether the *Conceptual Framework* needs to provide a better link between the objective of financial reporting and stewardship. The staff have identified three approaches for you to consider:

(a) Approach A—No change from the Exposure Draft (paragraph 19–21);

(b) Approach B—Modifying the objective of financial reporting to explicitly refer to the assessment of stewardship (paragraphs 22–24); and

(c) Approach C—A broader explanation of resource allocation decisions (paragraphs 25–31).

17. The staff have considered but rejected the idea of not changing the discussion in the existing Chapter 1 because only a small number of 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. We think that a significant number of their concerns could be addressed by proposals in paragraphs 37–52.

18. In addition, the staff think the Board should consider whether it is necessary to:

    (a) provide additional explanation of how it understands the term 'stewardship' (paragraphs 37–46); and

    (b) consider if there could be any possible conflicts when providing information for both assessment of future cash flows and assessment of stewardship and how to address such conflicts if they occur (paragraphs 47–52).

Link between the objective of financial reporting and stewardship

Approach A—No change from the Exposure Draft

19. The Board could decide to confirm the treatment of stewardship as proposed in the Exposure Draft (see Appendix A).

20. The advantages of this approach include:

    (a) the Exposure Draft proposal clarifies that information needed to assess management's stewardship and the prospects of future cash flows are not necessarily the same and thus both needs will be considered when developing new IFRS Standards; and

    (b) the proposal was largely supported by the respondents to the Exposure Draft as noted in paragraph 9.

21. However, even the supporters of the Exposure Draft proposal did not necessarily understand how the assessment of management's stewardship contributes to the objective of financial reporting and thought this was not clearly expressed in the Exposure Draft.

Approach B—Modifying the objective of financial reporting to explicitly refer to the assessment of stewardship

22. Under approach B, the *Conceptual Framework* would explicitly identify providing information to help assess the stewardship of management as part of the objective of financial reporting, alongside providing information that is useful for making resource allocation decisions. Appendix B illustrates how approach B could be achieved.

23. Advantages of approach B include:

    (a) it reflects, at least partly, the views of those who suggested that stewardship should be included as an additional objective of financial reporting because doing so would put more emphasis on:

        (i) the importance of financial reporting as a source of information needed to assess the stewardship of management and to hold management to account;

        (ii) a possible difference in information requirements for resource allocation decisions and for stewardship purposes (see paragraphs 49–50);

        (iii) the importance of providing information needed to assess management's stewardship for long-term investors[2].

    (b) it would be consistent with the description of the objectives of financial reporting in the International Public Sector Accounting Standards Board's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* issued in 2013. It describes the objectives of financial reporting by public sector entities as to provide information that is useful for both accountability purposes and for decision-making purposes.

24. Disadvantages of approach B include:

    (a) it identifies assessment of stewardship as separate from resource allocation decisions thus emphasising potential differences rather than the significant overlap in information needed (see paragraph 48).

[2] Feedback suggests that these respondents associated resource allocation decisions, ie decisions to buy, sell or hold, with short-termism. This interpretation is different from the intended meaning that the *Conceptual Framework* has been trying to convey (see paragraph 25–26).

(b) it may imply that financial reports should try to separate the effects of management's performance from those that are beyond management's control.

(c) unlike the approach in the Exposure Draft, which treated information about management's stewardship as part of information used for resource allocation decisions, this approach does not explain the purpose of assessing stewardship and so does not make it clear what information could be needed.

(d) it would require more extensive changes to the text of Chapter 1 to reflect the need to provide useful information for the dual objective of financial reporting. Thus, it would result in further divergence with FASB's Concepts Statement No 8 *Conceptual Framework for Financial Reporting—Chapter 1*, The Objective of General Purpose Financial Reporting.

Approach C—A broader explanation of resource allocation decisions

25. Paragraph BC1.10 (a) of the Exposure Draft explained that:

> 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.

26. However, the response to the Exposure Draft shows that this explanation of the link between resource allocation decisions and stewardship was overlooked or misunderstood by some respondents. They associated resource allocation decisions with buy, sell or hold decisions made at a point in time, thus excluding decisions that are made while holding an investment, eg decisions to reappoint or replace management; assess the adequacy of management's remuneration or approve a business strategy proposed by the management.

27. Under approach C, the *Conceptual Framework* would explicitly identify decisions made while holding investments, ie exercising rights attached to the investments, as part of resource allocation decisions. Paragraph 1.2 of the *Conceptual Framework* would explain resource allocation decisions as incorporating:

    (a) decisions to buy, sell or hold equity and debt instruments;

    (b) decisions to provide or settle loans and other forms of credit; and

    (c) decisions needed to exercise other rights while holding investments, such as rights to vote on or otherwise influence management's actions.

28. Decisions by existing investors, lenders and other creditors who have the right to vote on or otherwise influence management's decisions were mentioned in paragraph 1.22 of the Exposure Draft. Moving them into the description of the objective of financial reporting will emphasise that such decisions require both an assessment of future cash flows and an assessment of the management's stewardship.

29. Appendix B illustrates how this could be achieved.

30. Advantages of approach C include:

    (a) it would explain that assessing stewardship is not an end in itself, ie such assessment informs other decisions, for example a decision to change management or set their remuneration;

    (b) changes proposed by approach C respond to calls from respondents for greater clarity on the link between the objective of financial reporting and stewardship. It would explain that information needed to assess stewardship contributes to making:

        (i) buy, hold or sell decisions as well as

        (ii) decisions made to exercise other rights while holding investments.

    (c) as provision of information for decisions made while holding investments is explicitly identified as part of the objective, it would make it clearer that the needs of long-term investors will not be overlooked in preference to other users.

    (d) it would streamline the discussion of the objective of financial reporting, ie:

(i) paragraph 1.2 will set out the objective in terms of providing information useful for users in making decisions and identify those decisions;

(ii) paragraph 1.3 will discuss assessments needed to make those decisions; and

(iii) paragraph 1.4 will explain what information is needed to make the assessments in (ii).

31. However, the staff note that:

(a) the Basis for Conclusions of the existing *Conceptual Framework* makes a distinction between resource allocation decisions and decisions made on the basis of the assessment of management's stewardship.

> BC1.25 … investors, lenders and other creditors make other decisions that are aided by financial reporting information in addition to resource allocation decisions. For example, shareholders who vote on whether to retain directors or replace them, and on how members of management should be remunerated for their services, need information on which to base their decisions. Shareholders' decision-making process may include evaluating how management of the entity performed against management in competing entities in similar circumstances.

(b) similarly, most academic literature on the subject discusses usefulness for resource allocation (valuation) decisions separately from usefulness for stewardship purposes.

Staff recommendation for the Board

32. The main difference in the approaches is how they explain the link between the objective of financial reporting and stewardship:

(a) approach A gives more prominence to the notion of stewardship than the existing *Conceptual Framework*. However, it leaves the objective of financial reporting unchanged. Information needed to assess management's stewardship is identified as part of the information that is needed to meet the objective of financial reporting—to provide information that is useful when making resource allocation decisions, which are explained as buy, sell and hold decisions;

(b) approach B modifies the objective of financial reporting so that the objective explicitly refers to providing information needed for the assessment of stewardship; and

(c) approach C broadens the discussion of the objective to explain that decisions made while holding investments, for which the assessment of the management's stewardship is often vital, are resource allocation decisions.

33. The staff do *not* recommend approach A because we believe that a better explanation of the link between stewardship and the objective of financial reporting is needed.

34. The staff do *not* recommend approach B because:

(a) we believe that, ultimately, assessment of management's stewardship is used to make resource allocation decisions, rather than for its own sake. For example, an unsatisfactory assessment of management may lead to a decision to replace it to ensure the long-term success of the entity and generate greater returns in the future.

(b) it may be interpreted as introducing an additional objective of financial reporting, separate from usefulness for resource allocation decisions.

35. The staff recommend approach C because:

(a) it reflects the view that both information to assess stewardship and information to assess the prospects of future cash flows are needed for resource allocation decisions, so it does not introduce an additional objective of financial reporting.

(b) it clarifies which decisions will be considered by the Board when considering the usefulness of information when developing Standards;

(c) it makes it clear that information for assessing stewardship is part of the overall objective of financial reporting without making further significant changes to the text of Chapter 1 that could be misinterpreted.

36. In addition, approach C emphasises the importance of information for assessing stewardship for those who intend to hold investments.

Question 1—Clarifying the link between the objective and stewardship
Do you agree to adopt approach C, ie to clarify the link between the objective of financial reporting and stewardship by explaining resource allocation decisions as: (a) decisions to buy, sell or hold equity and debt instruments; (b) decisions to provide or settle loans and other forms of credit; and (c) decisions needed to exercise other rights while holding investments, such as rights to vote on or otherwise influence management's actions?

Explaining the term 'stewardship'

37. As noted in the March 2016 Agenda Paper 10A, some respondents, representing a broad cross-section of geographical regions and types of respondent, stated that different parties interpret the term 'stewardship' differently. Some of them thought that the different interpretations contribute to translation difficulties and inconsistent application of the notion.

38. Given the variety of interpretations, the staff think that it would be helpful to explain the Board's understanding of the notion of stewardship and what information could be needed to assess stewardship. This could also help with the translation of the term into other languages even if there is no equivalent literal translation.

39. The staff believe that approach C, which is discussed and proposed by the staff in paragraphs 25–31, helps to clarify and interpret the notion of stewardship by providing a better explanation of why users need to assess management's stewardship.

40. In addition, the staff think that the *Conceptual Framework* could help to improve understanding of the term by:

    (a) explaining which aspects of management's stewardship responsibilities can be assessed using information in financial reports. This could be done by clarifying that information needed for the assessment of management's stewardship, which can be provided by financial reports, is limited to information about the financial consequences of management's actions in fulfilling their responsibilities. For example, some respondents emphasised the importance of assessing stewardship because it supports corporate governance (see paragraph 11(c)). The proposed clarification would explain that while financial reports will provide some information about the financial consequences of management's actions, they cannot provide all the information necessary for an assessment of an entity's corporate governance arrangements.

(b) including an additional example of management responsibilities that are considered as part of an assessment of stewardship. Paragraph 1.23 of the Exposure Draft included some examples of such responsibilities, but some respondents commented that these examples where too narrow and negative and did not include any examples of the responsibility that management have to create value (for example, by developing an appropriate corporate strategy).

41. Consequently, the staff suggest modifying paragraphs 1.22–1.23 of the Exposure Draft as follows:

> 1.22 Information about how efficiently and effectively the entity's management has discharged its responsibilities to use the entity's resources helps users assess management's stewardship of those resources. Such information is also useful for predicting how efficiently and effectively management will use the entity's resources in future periods and, hence, is useful for assessing the entity's prospects for future net cash inflows. ~~Information about management's discharge of its responsibilities is also useful for decisions by existing investors, lenders and other creditors who have the right to vote on or otherwise influence management's actions.~~[3]
>
> 1.23 <u>The usefulness of financial reports in assessing the efficiency and effectiveness of the use of the entity's resources is limited to providing information about the financial consequences of management's actions in fulfilling their responsibilities.</u> Examples of <u>such</u> responsibilities ~~to use the~~

[3] This sentence will be included in paragraph 1.2 if the Board agrees with the staff's recommendation in Question 1.

~~entity's resources~~ include development of appropriate corporate strategy, protecting the entity's resources from unfavourable effects of economic factors, such as price and technological changes, and ensuring that the entity complies with applicable laws, regulations and contractual provisions.

Question 2—Explaining the term 'stewardship'
Do you agree to modify paragraphs 1.22–1.23 of the Exposure Draft to explain which aspects of management's stewardship responsibilities can be assessed using information in financial reports?

Stewardship vs accountability

42. The pre-2010 *Framework* used the terms 'stewardship' and 'accountability' interchangeably stating that:

> 14. Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. …

43. In the course of deliberations preceding the issue of Chapter 1 in 2010 the Boards discussed, and rejected, using the term 'stewardship' in the *Conceptual Framework*. Similarly, neither the current *Conceptual Framework* nor the existing Basis for Conclusions mentions the term 'accountability'.

44. The responses to the Exposure Draft suggest that most respondents use the terms 'stewardship' and 'accountability' interchangeably. Only a few respondents expressed a preference for a particular term. However, as noted in paragraph 14(b), some respondents asked the Board to clarify the link between these two terms.

45. The staff think that it would be helpful to indicate that there is no significant difference between the terms 'stewardship' and 'accountability' when using them in the context of the *Conceptual Framework*. Consequently, we recommend that the *Conceptual Framework*:

(a) continues using the term 'stewardship'; and

(b) on the first mention of stewardship in the text indicates that there is no significant difference in the terms 'stewardship' and 'accountability' as follows (additions to the Exposure Draft underlined):

> 1.3 […] Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity and their assessment of management's stewardship of <u>(accountability for)</u> the entity's resources. […]

46. We note that the change proposed in paragraph 45(b) would also help to clarify the link between the *Conceptual Framework* and the IFRS Foundation's mission statement, which uses the term 'accountability'.[4]

Question 3—Stewardship vs accountability
Do you agree that the *Conceptual Framework* should continue using the term 'stewardship' and indicate that there is no significant difference in the terms 'stewardship' and 'accountability' in the context of the *Conceptual Framework*?

Possible conflicts when trying to provide information for both assessment of cash flows and assessment of stewardship

47. Some respondents to the Exposure Draft expressed concern that different information may be required for assessing management's stewardship than for assessing future cash flows of the entity. They asked the Board to clarify how it would deal with possible conflicts when trying to provide information for both these assessments.

48. The staff believe that there is a significant overlap in information needed for both assessments for the following reasons:

(a) both assessments require information about past performance.

(b) both assessments are influenced by future expectations, which are reflected in information about the financial position at the end of the reporting

[4] The IFRS Foundation's mission is to develop International Financial Reporting Standards (IFRS Standards) that bring transparency, accountability and efficiency to financial markets around the world.

period. For example, the historical cost measure of assets reflects impairment. This information is useful for both assessing the cash generating capacity of this asset and management's stewardship of that asset.

49. We have identified some instances where the information required for the assessment of stewardship may differ from the information required for the assessment of future cash flows:

(a) some information may not be material for assessing future cash flows but because of its nature is important for assessing stewardship, for example, disclosures of related party transactions or management remuneration.

(b) assessment of stewardship may require additional rather than different information. For example, presentation of a net result of discontinued operations or one-off losses may be sufficient for the purposes of predicting future cash flows, while presentation of gross amounts/additional disclosures may be necessary to assess management's stewardship and the financial consequences of its actions.

50. Some respondents to the Exposure Draft identified possible conflicts between the information required for the assessment of stewardship and the information required for the assessment of future cash flows:

(a) Respondents had different views on the link between measurement bases and stewardship. Some respondents to the Exposure Draft expressed the view that historical cost measures provide more useful information for stewardship purposes as they are more verifiable and provide a link to the transactions actually undertaken by the entity for which management's responsibility is clear. Others argue that in some cases fair value measures may be more useful for assessing stewardship by management, for example if stewardship is assessed against market competitors. To avoid misunderstandings, the staff propose that the Basis for Conclusions on the revised *Conceptual Framework* should indicate that giving more prominence to stewardship does not imply a preference for any particular measurement basis.

(b) Some respondents argue that a focus on assessing stewardship can be interpreted as requiring information about only those activities that are within management's control. However, the staff believe that increasing the prominence of stewardship within the objective of financial reporting does not mean that the Board will discard information that may be relevant for the assessment of future cash flows if those cash flows are beyond management's control.

51. Although the staff have identified no significant conflicts between the information needed to assess prospects for future cash flows and the information needed to assess stewardship, we think it would be helpful to address the respondents' concerns and explain how the Board will deal with any conflicts if they arise. In such cases, the Board will have to exercise judgement to resolve the issue. The staff think that in this situation the existing guidance in paragraph 1.8 is sufficient:

> 1.8 Individual primary users have different, and possibly conflicting, information needs and desires. The IASB, in developing financial reporting standards, will seek to provide the information set that will meet the needs of the maximum number of primary users. However, focusing on common information needs does not prevent the reporting entity from including additional information that is most useful to a particular subset of primary users.

52. As explained in paragraph BC1.18 of the Basis for Conclusions on the current *Conceptual Framework*, general purpose financial reports are intended to provide common information to users and cannot accommodate every request for information. The Board will seek the information set that is intended to meet the needs of the maximum number of users in cost-beneficial ways.

Question 4—Difference in information requirements

Do you agree that the Basis for Conclusions on the revised *Conceptual Framework* should indicate that:

(a) increasing the prominence of stewardship within the objective of financial reporting does not imply a preference for either a historical cost or a fair value measurement basis; and

(b) if when developing a Standard, the Board faces a situation when different information is required for the assessment of future cash flows and for the assessment of management's stewardship, it will have to exercise judgement to seek the information set that is intended to meet the needs of the maximum number of users in cost-beneficial ways?

Appendix A—Extract from the Exposure Draft

The extract below is shown in mark-up compared to the existing Chapter 1 of the *Conceptual Framework.*

Objective, usefulness and limitations of general purpose financial reporting

1.2 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.

1.3 Decisions by existing and potential investors about buying, selling or holding equity and debt instruments depend on the returns that they expect from an investment in those instruments, for example dividends, principal and interest payments or market price increases. Similarly, decisions by existing and potential lenders and other creditors about providing or settling loans and other forms of credit depend on the principal and interest payments or other returns that they expect. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity and their assessment of management's stewardship of the entity's resources. Consequently, existing and potential investors, lenders and other creditors need information to help them ~~assess the prospects for future net cash inflows to an entity~~ make those assessments.

1.4 To ~~assess an entity's prospects for future net cash inflows,~~ help existing and potential investors, lenders and other creditors make those assessments, they need information about:

(a) the resources of the entity, claims against the entity~~,~~ and changes in those resources and claims (see paragraphs 1.12–1.21); and

(b) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources (see paragraphs 1.22–1.23). ~~Examples of such responsibilities include protecting the entity's resources from unfavourable effects of economic factors such as price and technological changes and ensuring that the entity complies with applicable laws, regulations and contractual provisions. Information about management's discharge of its responsibilities is also useful for decisions by existing investors, lenders and other creditors who have the right to vote on or otherwise influence management's actions.~~

Appendix B—Illustrating the approaches

Additions to the text of the Exposure Draft are shown as underlined text; deletions are shown as struck through text.

Approach B—Modifying the objective of financial reporting to explicitly refer to the assessment of stewardship

Objective, usefulness and limitations of general purpose financial reporting

1.2 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:

(a) 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; and

(b) assessing management's stewardship of the entity's resources.

1.3 Decisions by existing and potential investors about buying, selling or holding equity and debt instruments depend on the returns that they expect from an investment in those instruments, for example dividends, principal and interest payments or market price increases. Similarly, decisions by existing and potential lenders and other creditors about providing or settling loans and other forms of credit depend on the principal and interest payments or other returns that they expect. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity ~~and their assessment of management's stewardship of the entity's resources~~. Consequently, existing and potential investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity ~~make those assessments~~.

1.4 To help existing and potential investors, lenders and other creditors make this ~~those~~ assessments~~s~~, they need information about~~:~~

~~(a)~~ the resources of the entity, claims against the entity and changes in those resources and claims (see paragraphs 1.12–1.21).~~; and~~

~~(b)~~

1.5 To assess management's stewardship of the entity's resources, in addition to information about resources of the entity, claims against the entity and changes in those resources and claims, existing and potential investors, lenders and other creditors need information about how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources (see paragraphs 1.22–1.23).

Approach C – Broader explanation of resource allocation decisions

Objective, usefulness and limitations of general purpose financial reporting

1.2 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~~ about providing resources to the entity include:

(a) decisions to buy~~ing~~, sell~~ing~~ or hold~~ing~~ equity and debt instruments;~~,~~ ~~and~~

(b) decisions to provid~~ing~~e or settl~~ing~~e loans and other forms of credit~~.~~; and

(c) decisions to exercise other rights while holding investments, such as rights to vote on or otherwise influence management's actions.

1.3 Decisions by existing and potential investors about buying, selling or holding equity and debt instruments depend on the returns that they expect from an investment in those instruments, for example dividends, principal and interest payments or market price increases. Similarly, decisions by existing and potential lenders and other creditors about providing or settling loans and other forms of credit depend on the principal and interest payments or other returns that they expect. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity and their assessment of management's stewardship of the entity's resources. Those assessments are also needed to exercise other rights while holding investments, such as rights to vote on or otherwise influence management's actions. Consequently, existing and potential investors, lenders and other creditors need information to help them make those assessments.

1.4 To help existing and potential investors, lenders and other creditors make those assessments, they need information about:

(a) the resources of the entity, claims against the entity and changes in those resources and claims (see paragraphs 1.12–1.21); and

(b) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources (see paragraphs 1.22–1.23).