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LETTER OF COMMENT NO. 5

- File Reference N°. 1520-100, *Valuation Guidance for Financial Reporting*

Dear Members of the FASB

The subject of this Invitation of Comment is restricted as follows:

“As part of its deliberations on measurement attributes, the Board is considering ...” “The staff is issuing this invitation to Comment to begin a public discussion on whether and how the issues related to determining value should be addressed within the existing financial reporting standard-setting framework”.

Although this Invitation looks like to be related to the existing financial reporting standards, I understand that they introduce the Phase C, Measurement, of the Conceptual Framework Project.

Question 1 – Is There a Need for Valuation Guidance Specifically for Financial Reporting? No, (see further discussion below).

Question 1(a) to Question 4: Not relevant, based on my response to Question 1.

Firstly, a Conceptual Framework should not be a set of accounting rules, and no more a philosophical discussion. Valuation guidance would be rules.

The need of guidance is fulfilled by the Concepts related to each other that introduce the Principles in the accounting discipline. There is where the financial reporting is rooted. Such Concepts and their hierarchy highlight the rationality of accounting, and allow the determination of the accounting rules to be applied. Nowadays, despite the fact that the double entry book-keeping system has been in use for around six centuries for the purposes of managing business entities and producing their financial reporting, accounting is absolutely misunderstood. As a result, the needed comparability of financial reporting is not met, practitioners may sometimes face uncertainty in performing their job, the users misunderstand the financial reports. More deceiving, the standard-setting process that started three quarters of a century ago is not fruitful, as the accounting disasters six years ago made evident; and this, despite the massive work done all around the world to produce a Conceptual Framework for purpose of financial reporting and the associated standards. Both the FASB and the IASB are now working hard to avoid others accounting disasters. After around five years of efforts, they look to be still far from achieving what the public authorities and the financial markets are despairingly looking for. This is because of the currently existing Frameworks and the new one underway lack the appropriate fundamental concepts of accounting.

Secondly, accounting does not question what an appropriate measurement basis is. Accounting for business financial reporting is no more than counting, rather than valuing or measuring. And only things that exist in the real world and that are in the hands of the managers of a specific business are of interest to the accountants and of use for others parties interested. The first step of a Conceptual Framework for the purpose of financial

reporting is to specify quite precisely these things that are accounted for. Unfortunately, here is where the old Frameworks and those under consideration are, for the time being, unsatisfactory. To write that an asset is a resource does not clarify the specific things to be accounted for, since it is an abstraction. Such a definition hides the fact that we are not in a position to tell what we are talking about and what we are accounting for. As a result, the huge work done and on the way in order to write a Conceptual Framework from which to derive the needed accounting principles as well as the consistent standards are missing the point.

I am afraid that my suggestions previously provided to the FASB and to the IASB have not been taken under consideration (See FASB, comment letters, *Conceptual framework*, "CL 3" on your web site). I urge the FASB and the IASB to discuss my suggestions to understand that the things accounted for by business enterprises are the monetary units having been provided by various parties to them, making up its Financial Capital, the fundamental accounting concept from which all the others are derived.

High regards