2 November 2005

Dear David and Bob

Conceptual Framework project: Phase A due process document

As you know, the Accounting Standards Board is following closely the discussions of the IASB and FASB towards developing a common conceptual framework. In that regard my Board has asked me to write to you to question the decision reached by the Boards at their joint meeting in October that the first due process document on Phase A of the project (on objectives of financial reporting and qualitative characteristics of accounting information) will be an exposure draft.

I note that this decision was made on the basis that the tentative decisions on Phase A, to quote from the publicly-available observer notes, “do not result in fundamental changes to the existing frameworks. Rather, Phase A involves mostly refinements or clarifications of the existing frameworks”. Given the exclusion to date of not-for-profit and public sector entities (on which I wrote you on 20 October), the ‘relegation’ of stewardship from being a specific objective (raised in my letter of 29 July), the assumption of reflecting financial reporting (not just financial statements), and the fact that (to the ASB, at least) faithful representation rather than reliability is more than just a word change, we are strongly of the view that the first output should be a Discussion Paper. This is reinforced by the view that, on the conceptual framework, everything is related and consideration of later phases of the project may lead to the objectives (at least) being revisited. I think this could particularly be the case for Phase E of the project, looking at the boundary of financial reporting.

I also note that the Boards considered again a revised process for assessing the qualitative characteristics of accounting information for decision-useful financial reports. I was at the meeting of World Standard Setters in September and participated in the group exercises to apply the process to specific examples.
experience of that exercise was that it is very difficult to make it work. Others shared
that view. I think this difficulty goes deeper than simply attempting to apply an
unfamiliar process. If the process chart is to be included in the Phase A due process
document, then I think it should first be 'field-tested' by application to some existing
standards.

Yours sincerely

[Signature]

Ian Mackintosh