UNIVERSITY OF KWAZULU-NATAL
INYUVESI YAKWAZULU-NATALI

College of Law and Management Studies

School of Accounting, Economics and Finance

Westville Campus

Dissertation

Name of Candidate: Muhammed Kajee

Degree Programme: M. Comm (Accounting)

Student number: 207505100

Supervisor: Harold Galt CA (SA), M.Comm (Tax)

Topic: Exploring Public Opinion on the International Accounting Standards Board's Conceptual Framework Exposure Draft 2015

Declaration

Hereby I, Muhammed Abdool Haq Kajee, declare that this essay is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not previously in its entirety or in part been submitted at any university in order to obtain an academic qualification.

Muhammed Abdool Haq Kajee April 2019

Acknowledgement

I would like to thank God, for all praise is due to Him.

I would like to thank Mr Harold Galt CA (SA), for his support, motivation and supervision throughout this project. His positivity is infectious and I have learnt many life lessons through his good character and loving personality.

Finally, I would like to thank my wife, my parents and my brother, for their support throughout this process.

TABLE OF CONTENTS

List of Figures

List of Tables

5.15 Theme: Neutrality is sufficient

5.16 Theme: Judgment required

5.17 Theme: Measurement Uncertainty Sufficient

5.18 Comment Letters per Country

List of Abbreviations

IASB - International Accounting Standards Board

IFRS - International Financial Reporting Standard (IFRS)

CF 1989 - Framework for the Preparation and Presentation of Financial

Discussion Paper 2006 - Discussion Paper Preliminary Views on an improved Conceptual Framework for Financial Reporting

FASB - Financial Accounting Standards Board

CF 2010 - Conceptual Framework for Financial Reporting 2010

Discussion Paper 2013 - A Review of the Conceptual Framework for Financial Reporting

ED 2015 - Exposure Draft Conceptual Framework for Financial Reporting 2015

Title

Exploring Public Opinion on the International Accounting Standards Board's Conceptual Framework Exposure Draft 2015.

1. Background

1.1. Introduction to the Conceptual Framework

This study focusses on proposed amendments to the Conceptual Framework developed by the International Accounting Standards Board (IASB) and the related public opinion thereon. The Conceptual Framework is not an International Financial Reporting Standard (IFRS). Instead, its principles establish the foundational theory of financial reporting and thus guide the understanding, interpretation, and application of all International Financial Reporting Standards (IFRSs). It is also variously described as a theoretical foundation, a declaration of principles, a map and a philosophy. Historically, the Conceptual Framework serves to address fundamental issues such as:

- Objectives of financial statements;
- Qualitative characteristics which render financial reports useful;
- The reporting entity;
- Definition of accounting elements and the recognition and quantification thereof; and
- Treatment of capital (Lubbe, Modack and Watson, 2014).

The existence of a specific rule may be explained by referring back to the objective(s) in the Conceptual Framework to which the rule refers. The Framework assists various groups in different ways:

- The IASB in the review and creation of Standards;
- National standard setters to develop their particular Standards;
- Users in interpreting the financial statements;
- Auditors in determining whether the financial statements are in compliance with the necessary IFRSs; and
- Preparers in understanding complex IFRSs or designing their own Standards where no guidance is provided in the current Standards (International Accounting Standards Board, 2010).

1.2 Chronology of the Conceptual Framework

The initial version of the Conceptual Framework, titled “Framework for the Preparation and Presentation of Financial Statements” (CF 1989) was issued by the IASB’s predecessor body, the International Accounting Standards Committee, in 1989 (Deloitte Touche Tohmatsu Limited, 2010). In October 2004, the IASB collaborated with the US national standard-setter the Financial Accounting Standards Board (FASB) on a joint project to produce a revised common conceptual framework that built on their existing frameworks (the existing US framework was known as *FASB’s Concepts Statements*). This project was to be conducted in phases, with initial consultative documents for each (otherwise known as discussion papers), enabling interested parties to become involved at inception (Deloitte Touche Tohmatsu Limited, 2010).

The first phase of the project, Phase A, commenced with the issuing in 2006 of the Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting* (Discussion Paper 2006) by the IASB. This paper presented the Board’s preliminary views on chapters 1 and 3 of their proposed common framework:

- Chapter 1: The Objective of Financial Reporting; and
- Chapter 3: Qualitative Characteristics of Decision-useful Financial Reporting.

These views were subject to revision in the light of comments received before being published as exposure drafts of the proposed chapters. Comments on the contents of the Discussion Paper 2006 were to be submitted by the 3rd of November 2006. In 2010 the IASB published the *Conceptual Framework for Financial Reporting 2010* (CF 2010) establishing objectives of financial reporting and qualitative characteristics of financial information (International Accounting Standards Board, 2017).

In 2012, the IASB (without the FASB) prioritised the Conceptual Framework project, after an earlier call for public comment on its agenda revealed overwhelming support. As a result, the IASB issued *A Review of the Conceptual Framework for Financial* Reporting (Discussion Paper 2013), requesting comment. In May 2015, after an extensive review of the responses, an Exposure Draft (ED 2015) which set out the proposals for a revised Conceptual Framework was published. The deadline for comment expired in November 2015 (Sowden-Service and Kolitz, 2018)

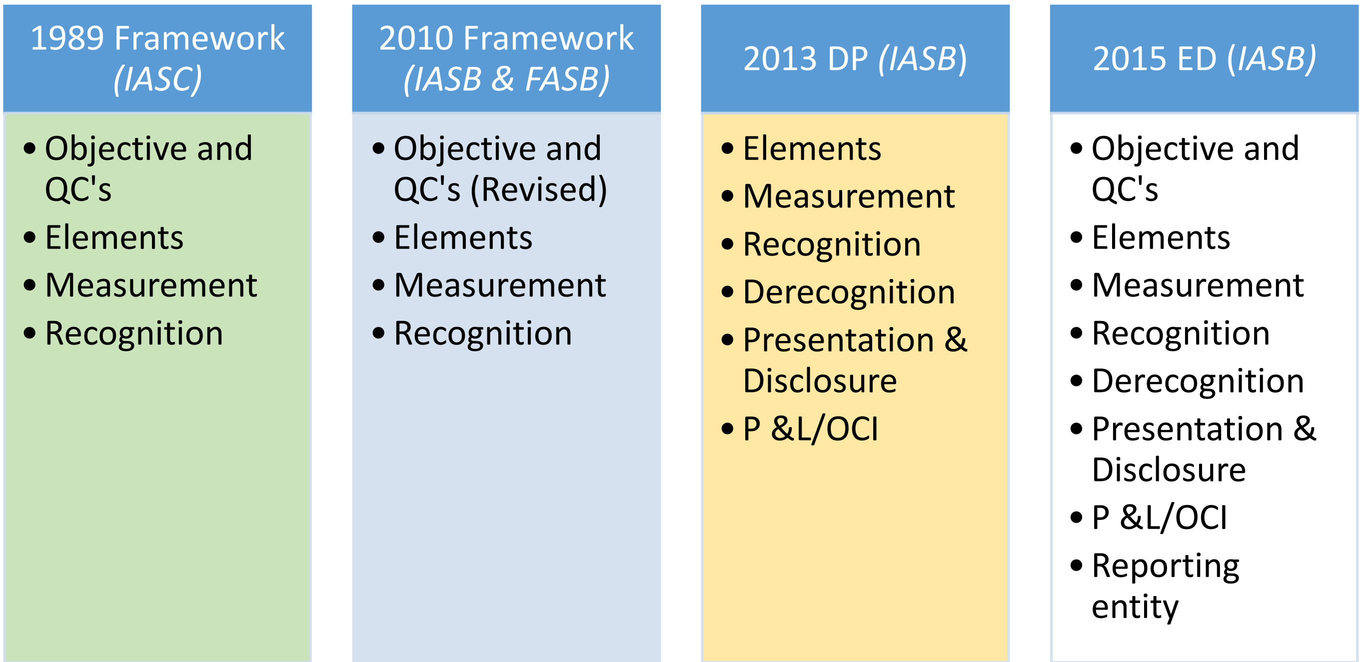

Figure 1.1 Conceptual Framework Project Timeline Source: (IFRSs Foundation, 2014)

In conclusion, the IASB has adopted an inclusive approach throughout its work on the Conceptual Framework by offering opportunities for interested parties to voice their opinions at every stage. This does not imply that all stakeholders who utilise IFRS were involved in the process since the onus was on the stakeholders to assess the material provided by the IASB and to comment thereon. The need for the revision of the CF 2010 is critical, since many issues were not addressed. Additionally, other than Chapter 1 & 3, the CF 2010 primarily consisted of outdated 1989 material.

1.3 Need for a Conceptual Framework

Foster and Johnson (2001) suggested that a rule derives its value from an established set of concepts, which form its theoretical basis. The Standards represent the “rule” and the Conceptual Framework represents the “set of concepts which form its theoretical basis” since the IASB uses the Conceptual Framework in order to guide and assist them in setting the Standards. It follows that the IASB will be able to improve the consistency and effectiveness of its Standards due to improving the quality of the Conceptual Framework. This will ultimately result in a coherent collection of Standards, in contrast to the alternative of an ad-hoc collection of loosely integrated Standards, which emerge from individual reasoning. Further, consistency minimises contradiction across conclusions, which share identical concerns, and allows for the establishing of strong precedent for future decisions, regardless of individual persuasion.

The problem of individual interpretation is common since we have a natural tendency for processing new facts which does not conflict with our prior conclusion (Weygandt, Kieso and Warfield, 2016). The natural tendency discussed above would result in Standards being set in a non-uniform manner. A body of such Standards would be plagued by biases and preconceived notions. The presence of the Conceptual Framework will eliminate these undesirable elements by providing guidance founded upon strong independent theoretical principles. IFRSs are founded on the guidance provided by the Conceptual Framework, including objectives, concepts, principles and general definitions. The process is illustrated below:

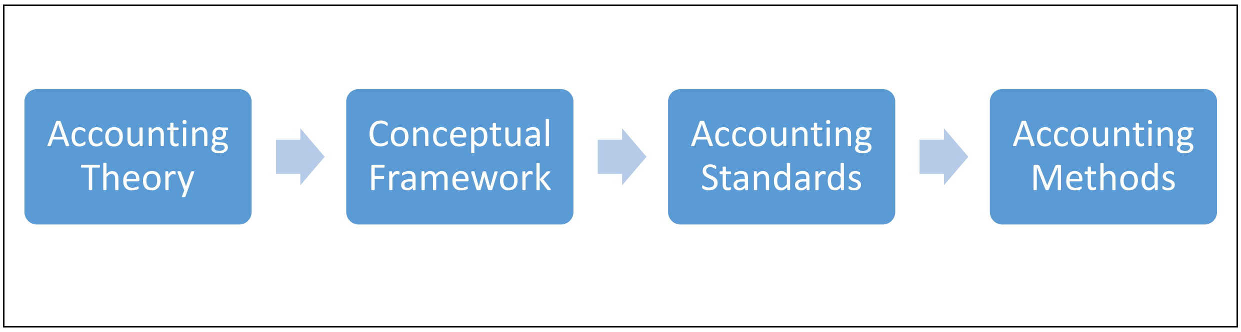

Figure 1.2 Development of IFRSs Source: (Stainbank, Oakes and Razak, 2017)

Accounting theory refers to the general knowledge base of all the opinions, concepts, attitudes and roles of accounting that will potentially be integrated into the Conceptual Framework. Accounting Standards are guided by the principles of the Conceptual Framework and accounting methods are formulated to assist the application of these Standards (Stainbank et al., 2017). In summary, if the amendments proposed by the IASB to the Conceptual Framework are plagued with inconsistencies, the credibility of derived IFRSs may be questioned. The next chapter lays out the Research Problem statement, the Aims and Overall Purpose, the Research Objectives and the Research Questions relating to this particular study.

2. Layout of the study

2.1 Research Problem Statement

The only previous study on the ED 2015 was conducted by Hoffman (2016) which evaluated a small sample of 72 comment letters. The author concluded that a number of respondents were dissatisfied with the proposals. According to Georgiou (2010) there is scarcity of research on public participation in the IASB Due Process. In other studies (not related to the Conceptual Framework) focusing on the IASB Due Process it was found that the majority of respondents disagreed with proposals made by the IASB (De Araújo, Gomes, Lucena and Paulo, 2015). Additionally, certain stakeholders' suggestions made by respondents, such as the United States, seem to have significantly more influence on the IASB than others (Bamber and McMeeking, 2016). Africa's participation in responding to the IASB's requests for comment has been poor in the past. In a study conducted by Larson and Herz (2013) which analysed 57 IASB publications from 2001 to 2008, it was found that responses received in the form of comment letters from African countries formed just 4% of total comment letters received in relation to the rest of the world. Hence, the following remains unclear:

- The level of acceptance amongst respondents for the proposals made in the ED 2015;
- Whether there are common concerns amongst respondents regarding the proposals made to the ED 2015 and the nature thereof; and
- The level (number of: responding countries and comment letters) at which Africa has participated in the Due Process

2.2 The Aims and Overall Purpose of the Study

Aim 1: To identify the level of agreement with the proposed amendments to the Conceptual Framework, including any common concerns with these amendments

A consistent Conceptual Framework would assuage any doubt as to the credibility of derived IFRSs and additionally establish Financial Accounting upon strong theoretical foundations. These foundations would further serve to improve the stead of Financial Accounting as a foundation to related fields such as Managerial Accounting and Finance, Taxation and Auditing. If there are problems with the Conceptual Framework, this will affect the IFRSs, which will affect accounting as a whole since most countries which have a stock exchange require or permit the use of IFRSs for domestic listed companies (PricewaterhouseCoopers, 2017).

Aim 2: To determine the extent of African participation in the IASB ED 2015 Conceptual Framework Due Process

Since Africa consists of mainly developing countries, a lack of confidence of users of financial statements for entities within that continent would have devastating effects, as this would be detrimental to economic growth. It is imperative that African countries participate in commenting on proposals made by the IASB regarding the Conceptual Framework and to indicate their specific concerns. Africa’s participation in responding to the IASB’s requests for comment has been poor in the past. In a study conducted by Larson and Herz (2013) which analysed 57 IASB publications from 2001 to 2008, it was found, as stated above, that responses received in the form of comment letters from African countries formed just 4% of total comment letters received in relation to the rest of the world. It is hoped that this study will encourage Africans to increase their participation in future IASB projects.

2.3 The Research Objectives

Based on the aims of this study, this study seeks to achieve the following objectives:

1. To determine the level of agreement amongst respondents to the proposals made by the IASB in the ED 2015 in order to assist in assessing the appropriateness of the proposals.
2. To identify any common concerns amongst respondents to the proposals made by the IASB in the ED 2015 and the nature thereof in order to determine the areas which the IASB may wish to reconsider.

3. To determine the extent of African participation in the IASB Conceptual Framework Due Process, in order to assess whether participation is low in relation to the rest of the world.

2.4 Research Question

In consonance with the Research Objectives and Research Problem Statement, answers will be sought for the following Research Question:

- What were the major issues identified with the proposals in the Exposure Draft 2015 to the Conceptual Framework.

3. Literature Review

This section provides a comprehensive review of the available literature related to the topic.

3.1 Summary of Proposed Changes

The Exposure Draft published in May 2015 for the Conceptual Framework (‘ED 2015’) occurs in Chapter format. A summary of each section will be given below:

Introduction: The main purpose of the Conceptual Framework is aiding the IASB to formulate IFRSs and amend old ones. Where conflict occurs between a Standard and the Conceptual Framework, the Standard takes precedence and must be adopted.
If the IASB does publish a document which is in conflict with the Conceptual Framework the IASB is to disclose the fact and reasons for the deviation (PricewaterhouseCoopers, 2015).

Chapter 1: *The objective of general purpose financial reporting*. This chapter was amended as part of the revised CF 2010; therefore, the proposed amendments in the ED 2015 are limited. The CF 2010 suggests that one of the objectives of financial reporting is for users to be able to assess management’s stewardship of the entity’s resources, without actually using the term *Stewardship*. The IASB now suggests using the actual term in its discussion in order to emphasise its relevance to the objective of financial reporting (Deloitte Touche Tohmatsu Limited, 2015).

Chapter 2 - *Qualitative characteristics of useful financial information*. This chapter was also amended as part of the revised CF 2010, therefore, the proposed amendments in the ED 2015 are also limited. The IASB now suggests bringing back the principle of Prudence (which was removed from the CF 2010) to help in achieving the concept of Neutrality. Prudence refers to being conservative when making estimates or judgements especially when uncertainty is present. An explicit reference is made to *Substance-over-form* which emphasises that Faithful representation is achieved by presenting the substance of a transaction or event (Ernst & Young Global Limited, 2015).

Chapter 3 - *Financial Statements and the reporting entity*. The ED 2015 proposes that a reporting entity is "an entity that chooses, or is required, to present general purpose financial statements". The parameters for determining a reporting entity are proposed, making it possible for a part of a legal entity or more than one legal entity being deemed a reporting entity. Therefore, combined financial statements are permitted although no guidance is offered as to when this would be recommended citing that this is a standard-level issue (PricewaterhouseCoopers, 2015).

Chapter 4 - *The elements of financial statements*. The definition of an asset has been amended to "a present economic resource controlled by the entity as a result of past events". An economic resource refers to rights which have the potential to produce economic benefits. Focus is therefore placed on accounting for various rights that create economic resources, whether intangible or tangible. The notion of control has not been removed which emphasises the need for the entity to have the right to decide how that particular asset is utilised in generating economic benefits (Ernst & Young Global Limited, 2015).

The definition of a liability has been amended to "a present obligation of the entity to transfer an economic resource as a result of past events". A 'present obligation' is described as an obligation resulting from a past event that the entity is unable to avoid. The IASB has excluded the old part of the definition "expected inflow or outflow of resources" due to the concern regarding the ambiguity of the terms 'expected' and 'probability' (Ernst & Young Global Limited, 2015).

Chapter 5 - *Recognition*. The recognition criteria stipulated in the CF 2010 includes whether or not a flow of future economic benefits are probable. Certain Standards such as IFRS 9 Financial Instruments do not apply these criteria. There has also been an element of ambiguity present within the Standards with terms such as 'more likely than not', 'virtually certain' and 'reasonably possible' being used, leading to inconsistencies. Therefore, the IASB proposed that the Conceptual Framework should set out criteria for recognition based on the Qualitative Characteristics of useful financial information. An asset or liability (including any resulting income, expense or change in equity) is recognized if:

- It provides relevant information regarding the asset or liability (and of any resulting income, expense or change in equity);
- It provides a faithful representation of the asset or liability (and of any resulting income, expense or change in equity); and
- The benefit of the recognition outweigh the cost of doing so. This is to determine if measurement would be abnormally difficult (Holt, 2016).

The CF 2010 did not provide guidance regarding derecognition therefore the Standards have adopted mixed approaches. The IASB proposed that the Conceptual Framework should set out criteria for derecognition based on the Qualitative Characteristic of useful financial information, Faithful Representation. The accounting process of derecognition should "faithfully represent both the assets and the liabilities retained, and the changes in the assets and the liabilities as a result of the transaction". The IASB also provides alternatives when achieving both of these objectives is not possible (Holt, 2016).

Chapter 6 - *Measurement*. The IASB proposes two categories as measurement bases: Historical Cost and Current Value. Current Value includes Fair Value, Value in Use for assets and Fulfilment Value for liabilities. Factors to consider when deciding on a measurement basis are also discussed including considering the Qualitative Characteristics of useful financial information and the Cost Constraint. Generally, the most appropriate way to provide useful information is to use one measurement, however, situations when more than one measurement basis provides relevant information are also discussed (Hong Kong Institute of Certified Public Accountants, 2015).

Chapter 7 - *Presentation and disclosure*. The IASB discusses factors, which determine what information should be included in the financial statements and the manner of presentation. The statement of comprehensive income is described as the 'statement of financial performance'. It is not specified whether this statement should consist of a single or two statements. It is required that a total or subtotal for profit or loss be presented. A definition of profit and loss is not provided, which may result in confusion as to what exactly is to be included as profit and loss (Deloitte Touche Tohmatsu Limited, 2015). Other Comprehensive Income ('OCI') was not mentioned in the CF 2010. Profit or Loss is to be regarded as the main indicator of performance and amounts are classified through OCI only when "that enhances the relevance of profit or loss and if they relate to assets or liabilities premeasured to current values" (International Accounting Standards Board, 2015).

Chapter 8 - *Concepts of Capital and Capital Maintenance*. Minor terminology changes have been made to this chapter without any significant amendments to the content matter. The IASB states that it would consider revising the description and discussion of Capital Maintenance if it were to carry out a future project on accounting for high inflation although there has been nothing planned as of yet (IFRSs Foundation (a), 2015).

3.2. Basis for Conclusions

The IASB has also released a document, which reads with the ED 2015 known as the Basis for Conclusions. This document contains the reasoning of the IASB behind the proposals made in the ED 2015. This is achieved by referencing each chapter in the ED 2015 to a related paragraph in the Basis for Conclusions. These conclusions provide some background, history and scope of the project and offers additional explanations regarding why a specific proposal was made, and how that conclusion was reached. There is also a section in the Basis for Conclusions, which lists areas where Board Members disagreed and the alternate views which the dissenting Board members held. The IASB hoped that by doing this, commentators would have been able to make more informed comments (IFRSs Foundation (a), 2015).

3.3. The IASB Due Process

Before issuing a new standard or amending an existing one, there is a Due Process which the IASB follows which includes the optional publication of a Discussion Paper ('DP') and the mandatory publication of an Exposure Draft ('ED'). A DP usually includes a thorough analysis of the relevant issue outlining the various points of consideration, courses of action, initial views of the IASB and an invitation for public comment. An ED sets out a specific proposal and usually follows the same form of a standard. It also presents questions regarding issues which the IASB feel are of particular importance and includes invitation to the public to comment (International Financial Reporting Standards Foundation, 2016).

The issue of a new Conceptual Framework or amending the existing one follows the same Due Process which is required by the IASB as issuing a new standard or amending an old one. Therefore, the IASB *may* decide to publish a DP and *must* publish an ED with the invitation for comment. The IASB allows a comment period, which is a timeframe in which commentators need to submit. At the expiration of this period, the comments are reviewed by the IASB. This process is designed to alert the IASB to areas which may need additional attention and subsequent review (International Financial Reporting Standards Foundation, 2016).

According to Chua and Taylor (2008), if the IASB would like to strengthen their legitimacy then they would need to be seen as a fair and free of bias. Additionally, they believe that legitimacy of the IASB is necessary for the welfare of the accounting profession as a whole. According to Richardson and Eberlein (2011), due process "*promises to counter-balance the arbitrariness of participation rules that results from the self-mandated character of private standard setting*". ChathamLarson and Vietze (2010) support the due process due to the fact that "*respondents' disagreements with proposed standards appear to have induced changes by standard-setters*".

3.4 IFRS around the Globe

The International Financial Reporting Standards Foundation (‘IFRSs Foundation’) has compiled profiles of 166 jurisdictions/countries around the world, which include all of the G20 countries. These 166 countries represent approximately 99% of the world’s GDP. 144 of these countries require the use of IFRSs for all or most listed companies on their respective exchanges, which represents 87% of the total 166. Figure 4.1 provides a map highlighting these countries. Out of these 144, Bhutan is the only country which has not begun to use IFRSs but will do so from 2021. Of the remaining 22 countries, 12 of them do not require, but allow the use of IFRSs. These countries are Bermuda, Cayman Islands, Guatemala, Honduras, Japan, Madagascar, Nicaragua, Panama, Paraguay, Suriname, Switzerland, and Timor-Leste. Uzbekistan requires the use of IFRSs for financial institutions only. Thailand is still in the process of full IFRSs adoption. Indonesia is in the process of converging its national Standards with IFRSs. The countries which use national Standards are Bolivia, China, Egypt, India, Macao SAR, United States, and Vietnam. Table 4.1 provides a summary of the numbers discussed (IFRSs Foundation, 2018).

Fifteen (15) of the G20 countries require the use of IFRSs for all or most listed companies on their respective stock exchanges. The remaining five are the United States of America, Japan, the People’s Republic of China, the Republics of India and Indonesia. Japan allows but does not require the use of IFRSs. China, India and Indonesia adopt national Standards that are substantially in line with IFRSs. The US permits the use of IFRSs for foreign securities issuers (IFRSs Foundation, 2018).

The IFRSs Foundation has compiled profiles of 38 jurisdictions/countries in Africa. Thirty six (36) of these countries require the use of IFRSs for all or most listed companies on their respective stock exchanges, which represents 95% of the total 38. These 36 countries are Angola, Benin, Botswana, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Côte d’Ivoire, Democratic Republic of Congo, Equatorial Guinea, Gambia, Gabon, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Malawi, Mali, Mauritius, Namibia, Niger, Nigeria, Republic of the Congo, Rwanda, Senegal, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Uganda, Zambia, and Zimbabwe. Out of the remaining two, Egypt does not permit the use of

IFRSs for listed companies on its exchange and Madagascar does not have a stock exchange (IFRSs Foundation, 2018).

Figure 3.1 Countries which require IFRSs for listed companies Source: (IFRSs Foundation, 2018)

\- Countries which require IFRSs for listed companies

Region	**Jurisdictions in the region**	**Jurisdictions that require IFRSs for all or most domestic publicly accountable entities**	**Jurisdictions that require IFRSs as % of total jurisdictions in the region**	**Jurisdictions that permit or require IFRSs for at least some (but not all or most) domestic publicly accountable entities**	**Jurisdictions that neither require nor permit IFRSs for any domestic publicly accountable entities**
Europe	44	43	98%	1	0
Africa	38	36	95%	1	1
Middle East	13	13	100%	0	0
Asia-Oceania	34	25	74%	3	6
Americas	37	27	73%	8	2
Totals	**166**	**144**	**87%**	**13**	**9**
As % of 166	**100%**	**87%**		**8%**	**5%**

Table 3.1 IFRSs adoption by Jurisdiction
Source: (IFRSs Foundation, 2018)

3.5 General Opinions regarding the Proposed Changes

Barker and Teixeira (2018) are of the opinion that the proposed Conceptual Framework does not provide adequate guidance in determining which assets, liabilities, income and expenses should be recognised and the measurement thereof. Since the Conceptual Framework concentrates mainly on assets and liabilities, this implies that the accounting should be determined from the balance sheet. However, a large number of IFRSs rules address issues pertaining to the income statement, which implies that these rules are not being derived from the Conceptual Framework, but are in need of being reconciled back to the Conceptual Framework. Additionally, the Conceptual Framework *does* state that accrual accounting is superior in reporting past and future performance than cash flow accounting, but does not provide guidance as to why this is so. They recommend that the IASB explain how entities' business models are used to create value, and how this relates to the concept of accrual accounting.

Ernst & Young Global Limited (2015) supported the IASB's decision to amend the Conceptual Framework, but feel that there may be areas that have been overlooked. For example, differentiating between equity and a liability, the constituents of financial performance, guidance regarding what qualifies income and expenses to be processed through OCI and the reasoning for recycling of gains and losses in OCI to profit and loss. They believe that by not addressing these issues adequately, the usefulness of the Conceptual Framework will be impaired.

Russell, Wally and Joel (2017) believe that the complexity behind the auditing of accounting estimates needs to be considered conceptually and the fact that the ED 2015 does not address this raises major concern. Additionally, no parameters are set with the extent of estimation uncertainty and this is not appropriately applied to the definition of assets and liabilities. They propose that the Conceptual Framework should clearly state the fact that the document is the highest authority for accounting practices and this will result in IFRSs that deter unethical and fraudulent reporting.

3.6 IASB Comment Letters relating to the Conceptual Framework

In a study conducted by Hoffman (2016), which evaluated the comments made by 72 respondents to the ED 2015, it was found that the majority of respondents agreed with the proposed updates. The areas in which the majority of respondents did not agree with are: the reinstatement of the concept of prudence, the definition of the statement of profit or loss, the definition and use of the statement of other comprehensive income and the inclusion of a rebuttable presumption for recycling of assets/liabilities back into the statement of profit or loss. Respondents also believed that the alternative views assisted them to make informed comments and they were able to suggest more appropriate recommendations.

In a study conducted by De Araújo et al. (2015), comments made by 420 respondents to the Discussion Paper 2006 and the Discussion Paper 2013 were analysed using Content Analysis with the objective of determining the agreement level regarding the exclusion of the term 'Prudence'. One hundred and seventeen out of the 176 letters, which were identified for discussing the term 'Prudence', disagreed and favoured the inclusion. The main argument made by those who agreed with the exclusion, was its conflict with the concept of Neutrality. Additionally, respondents from Europe were found to be the most favourable for inclusion of the term, whilst North America was found to be the most favourable towards exclusion. Further, preparers were found to be the most favourable towards inclusion, whilst financial institutions were found to be the most favourable towards exclusion. Kappa Analysis was also employed to determine agreement level over time (2006 to 2013), and indicated weak agreement, suggesting more deliberation is required on the matter.

3.7 IASB Comment Letters relating to Other Publications

In a study conducted by Adhikari, Betancourt and Alshameri (2014), comments made in response to the SEC's Proposed IFRS Roadmap were analysed using content analysis and CLUTO (a type of software used to analyse texts). A number of questions were posed to the public and content analysis was utilised to determine the level of agreement with the proposals. CLUTO was used to determine the type of respondents and the reasons behind their stances. Most of the respondents disagreed with the proposals made by the IASB and the responses received systematically differ by respondent type. For example, inventory valuation and fair value issues were of particular concern to the natural resource industry. Specialized accounting was a major concern for regulatory and insurance industries. Adhikari et al (2014) believe that the finds should be assessed by the IASB in order to assist in their objective of developing unified high quality global accounting Standards.

In a study conducted by Larson (2007) on comment letters relating to 57 IASB publications from 2001 to 2008, it was found that countries with EU membership, G4+1 membership, donations to the IASB and larger equity market development are responsible for the submission of higher numbers of comment letters. Additionally, developed countries with a history of divergence in accounting Standards from IFRSs are also responsible for higher numbers of comment letter writers. Further, professional accountancy bodies, accounting standard-setters, and public accounting firms were found to be responsible for at least half of all submissions. It was also discovered that response levels for most countries varied and were greatly dependent upon the nature or topic of the publication. The overall response numbers were found to be low in comparison to other standard setting bodies, which may raise concern regarding the legitimacy of IASB publications. Additionally, comment letters from African countries formed just 4% of total comment letters received in relation to the rest of the world (as stated above).

3.8 African participation in the IASB standard setting processes

In a study conducted by Botzem, Quack and Zori (2017), it was found the IASB has the appropriate due processes in place regarding the provision of opportunities for the public to commentate on its projects. However, participation in the due processes seems to be disproportionality skewed towards developed countries and often with African countries (excluding South Africa) absent altogether. Botzem et al (2017) argue that the lack of participation of African countries is a consequence of a deficiency in accounting capacity and infrastructure. They believe that these issues could be solved by existing training programs and institutional capacity building. Additionally, their results suggest that the lack of African participation results from a "conceptual mismatch between the underlying assumptions of global standards and the socio-economic, cultural and political realities in developing countries".

3.9 Influence on the IASB

In a study conducted by Bamber and McMeeking (2016), the content of 106 comment letters to an exposure draft published in 2004 relating to IFRS 7 were analysed. It was found that accounting firms seem to have significantly less influence than other stakeholders on the IASB's final decisions. Additionally, it was found that the suggestions made by respondents from the United Kingdom seem to have significantly less influence on IASB decision making as opposed to the United States, who are much more likely to have their suggestions considered. The study's conclusions warns that this apparent bias could lead to public scepticism regarding the integrity of the IASB due process and result in the decrease of the quality of IASB publications and projects.

Some studies have focussed on determining whether the Big Four accounting firms hold greater influence on the standard-setting process and have argued that these four are in favour of increasing the complexity of Standards, which require more time and expertise to work with, thereby increasing their income. The results of these studies seem inconclusive (Puro, 1984). Preparers have been found to hold a high level of influence on the standard–setting process and in the past they have shown the highest level of participation in the due processes (Chee Chiu Kwok and Sharp, 2005). Studies have suggested that the United States and Europe have been shown to hold high degrees of influence on the standard-setting process (Camfferman and Zeff, 2007, Larson, 2007).

3.10 Summary

The IASB has performed a comprehensive overhaul of the Conceptual Framework. The comment phase of the Due Process was initiated to add legitimacy to the project. IFRSs are being used internationally by the majority of the countries of the world, which adds to the importance for a quality Conceptual Framework. There seems to be support for the IASB decision to review the Conceptual Framework but there is substantial evidence to suggest that many parties do not agree with some of the actual proposals that have been made. It is also evident that topics which interest respondents systematically, differ by respondent type and country. Bias has been shown to exist within the IASB in terms of considering opinions from certain countries or industries more seriously than others. Participation from African countries has been shown to be poor due to lack of infrastructure, capacity and the “conceptual mismatch between the underlying assumptions of global standards and the socio-economic, cultural and political realities in developing countries”.

4. Research Methodology

4.1 Methodological orientation

The study is exploratory in nature and employs qualitative data analysis methods. Qualitative data analysis “creates new understandings through critical and reflexive exploration and interpretation of complex data from sources such as interviews, group discussions, observation, journals and archival documents” (O'Leary, 2014). Journals and archival documents were the sources utilized in this study. Content analysis and thematic analysis will be used to analyse the Comment Letters. According to Smith (2015), these methods enable the user to make valid inferences from texts such as archival data, usually by the measurement of key features such as the number of occurrences of words or the number of words relating to particular themes.

4.2 Data Sources and Inclusion/Exclusion criteria

The data used for this study was procured from the comment letters submitted to the IASB in response to their request for comments on the ED 2015. Secondary data “can be found in documents, databases and on the internet – none of which was created by the researcher for the express purpose of his or her research project. It is existing data that researchers simply gather and analyse” (O'Leary, 2014). Therefore, the comment letters used for this study represent secondary data. A total of 241 documents were submitted. The IASB posed a total of 18 questions in the ED 2015. Commentators were encouraged to comment on any of the questions posed and were further encouraged to try to limit their comments to questions which they felt warranted their responses. The commentators were also encouraged to make comments regarding any additional matters deemed necessary. These letters were obtained from the IFRS Website: https://www.ifrs.org/projects/2018/conceptual-framework/comment-letters-projects/ed-conceptual-framework/. Appendix A presents a list of the 18 questions which have been summarized.

According to O'Leary (2014), broad representation is an important strategy for achieving credibility in Qualitative studies. Therefore, all Comment Letters will be used in this study.

Not all of the 241 documents submitted to the IASB were in the form of letters. However, if these documents included discussions (for example research papers) which were relevant to the amendments to the Conceptual Framework, these were included in the study. Comment letters which did not follow the format of answering the IASB’s questions were excluded from analyses in the study, which dealt with question specific issues.

4.3 NVivo 11

According to Smith (2015), when dealing with large volumes of long narrative transcripts, the use of dedicated software becomes necessary “for classifying and categorizing the data and facilitating keyword searches”. Consequently, NVivo 11 software will be used for coding purposes. NVivo allowed the author to create nodes which comprised of parent, child and sibling nodes. The results of queries were saved to these nodes. These nodes allowed the categorization of parent, child and sibling ideas. The overall parent node for the study was given the label “Exposure Draft 2015 Project”. The final node structure for this study may be referred to in Appendix B. All of the coding was performed by the author.

4.3.1. Overall level of agreement

All 241 comment letters (sources) were imported onto NVivo. In order to obtain a general sense of agreement with the ED 2015 content a text search query was run (using all of the sources) for the following phrases:

- "i support"
- "i do support"

- "we do support"
- "we support"
- "are in support"
- "supports"
- "we fully support"
- "i fully support"
- "is in support"
- "agrees"
- "i agree"
- "i do agree"
- "we agree"
- "we do agree"
- "are in agreement"
- "is in agreement"
- "we fully agree"
- "i fully agree"
- "I absolutely agree"
- "we absolutely agree"
- "I absolutely support"
- "we absolutely support"
- "strongly support"
- "do not object"
- "don't object"
- "no objection"
- "We welcome"
- "no objections"
- "all agreed"
- "generally agree"

The results for this query were coded as a child node labelled “Agree” under the parent node “Agreement Level”. This parent node is a child node in relation to the overall parent node “Exposure Draft 2015 Project”

In order to obtain a general sense of disagreement with the ED 2015 content a text search query was run (using all of the sources) for the following phrases:

- "I disagree"
- "do disagree"
- "I do not agree"
- "we do not agree"
- "does not agree"
- "doesn’t agree"
- "don't agree"
- "we disagree"
- "disagrees"
- "does disagree"
- "are in disagreement"
- "is in disagreement"
- "we fully disagree"
- "i fully disagree"
- "I absolutely disagree"
- "we absolutely disagree"
- "do not support"
- "don't support"
- "not in support"
- "not in favour"
- "we caution against"
- "we object"
- "have concerns"

The results for this query were coded as a child node labelled “Disagree” under the parent node “Agreement Level”. Placing the phrase in quotations ensured that only exact matches are included in the results. The initial list fewer phrases then the items listed. As the study progressed and sources were perused, additional relevant phrases were added to the list.

4.3.2 Comment Letters per Question

Text-search queries were run to identify exactly which source addressed a particular Question. For example, for Question One the following phrases were used for this query:

- "Question 1"
- "Question1"
- "Question one"

This query was run for each Question respectively. The "result" of a query lists all the sources which contained one of the queried phrases and the number of times the phrases were mentioned per source. These results were saved to individual child nodes under overall Parent Node "Exposure Draft 2015 Project".

4.3.2.1 Uncoded sources identified after initial coding

After coding, under the "Sources" tab (where all sources imported are listed), the author was able to see which sources have been coded and which have not. It was noted that certain sources (approximately 90) were not coded at any Question. These 91 were individually opened and reasons for not coding were identified as follows.

- Thirty-eight sources were in the form of PDF images hence unreadable by NVivo. This usually results from the original document being scanned before being emailed. The solution for this was Optical Character Recognition (OCR), which allowed for the electronic conversion of image documents into text documents. The open-source application "Google Docs" was used to conduct the OCR. Each document was individually imported to Google Docs, converted to a text document and saved. The original unreadable image files were deleted from NVivo and the newly converted text documents were imported. The queries were run again and this time results for these documents were obtained and saved to the relevant node.

- Four sources were not comment letters:

  Document 1. An email unrelated to the Conceptual Framework;
  Document 2. An unrelated research paper;
  Document 3. A cover letter without the actual comment letter and;
  Document 4. A document with and Adobe logo and no content at all.

  These were excluded from the study in totality.

- Forty-nine sources were comment letters that did not follow the format of answering the IASB's questions. These were excluded from analyses in the study which dealt with question-specific issues.

- Therefore, 188 (241 – 4 - 49 = 188) comment letters out of the original 241 were used for all analyses in this study. Additionally, 237 (241 - 4 = 237) comment letters out of the original 241 were used for analyses in the study which dealt with non-question-specific issues.

A number of sources listed a question which would match one of the queried phrases however the response to that question was "no comment" or a variation thereof. To solve this issue, an additional text search query on all sources was run for the following phrases:

- "no further comment"
- "no further comments"
- "do not have any comments"
- "do not have any comment"
- "no additional comments"
- "no comments"

The results of this query were used to uncode these responses from the relevant question nodes.

4.3.3 Comment Letters per sub-question Question One

Question One was identified as the most frequently answered question and was selected for further analysis. Table 4.1 presents the Question One as per the ED 2015.

1 a	Do you support the proposals 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?
1 b	Do you support the proposals to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality?
1 c	Do you support the proposals to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form?
1 d	Do you support the proposals to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant?
1 e	Do you support the proposals to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?

Table 4.1: Question One Exposure Draft 2015

The following child nodes were created under the parent node "Question One" representing Question One's sub-questions:

- A - Stewardship
- B - Prudence
- C - Faithful Representation = Substance over Form (FR =SOF)
- D - Measurement Uncertainty decreases Relevance (MU dec REL)
- E - Faithful Rep + Relevance = Fundamental QC's (FR + Rel = FQC)

Each of the comment letters which addressed Question One were opened and the discussions relating to each sub-question (if answered) were coded separately to one of the above relevant child nodes. For example, the text for the answer to Question

One (a) would be highlighted and coded to “A - Stewardship”. This enabled the determination of the most frequently answered sub-question.

4.3.4 Approbation per Sub-Question (Question One)

In order to obtain a sense of agreement with the proposals made in Question One a text search query was run for each sub-question (using all of the sources which answered Question One) for the phrases included in Table 5.1. The results for this query were coded as a child node labelled “Agree” under the sub-question parent nodes (as specified in Table 5.4).

4.3.4.1 Disagreement per Sub-Question (Question One)

In order to obtain a sense of disagreement with the proposals made in Question One a text search query was run for each sub-question (using all of the sources which answered Question One) for the phrases included in Table 5.2. The results for this query were coded as a child node labelled “Disagree” under the sub-question parent nodes (as specified in Table 5.4).

In order to factor in relativity the following steps were taken: A “proportion of sub-question total” was calculated by dividing the number of agrees/disagrees by the total number of sources/references for that particular sub-question. For each sub-question, the “Overall agreement factor” was calculated. This was calculated by adding the two “Proportion of sub-question total” agrees, subtracting (from this figure) the two “Proportion of sub-question total” disagrees and dividing the resulting figure by two. Figure 4.1 presents the calculation used.

$$Z = \frac{X\ (Agree) + Y\ (Agree) - X(Disagree) - Y\ (Disagree)}{2}$$

Figure 4.1 Overall agreement factor

4.3.5 Thematic analysis: Question One (b)

The sources which contained disagreement phrases were individually opened and read, in order to identify key concepts discussed. The texts relating to the key concept were coded to child nodes under the parent node “Disagree 1b”. If a concept was repeated in a subsequent source this text was coded to the relevant, previously identified key concept, which resulted in the formation of themes.

4.3.6 Comment Letters Per Country

Each source was individually opened, the addressee’s country noted and then coded to a child note labelled with the relevant country’s name. This child node was placed under its parent node “Country” and this parent was a child node of the overall parent node “Exposure Draft 2015 Project”.

5. Results

5.1. Overall level of agreement: Results

Table 5.1 presents the results coded at the “Agree” node.

Agreement Phrase	Number of Sources	Number of occurrences in each source
"i support"	10	29
"i do support"	0	0
"we do support"	1	1
"we support"	106	347
"are in support"	1	1
"supports"	60	173
"we fully support"	7	10
"i fully support"	0	0
"is in support"	0	0
"agrees"	40	382
"i agree"	24	97
"i do agree"	2	2
"we agree"	133	1146
"we do agree"	2	3
"are in agreement"	4	4
"is in agreement"	0	0
"we fully agree"	5	13
"i fully agree"	1	1
"I absolutely agree"	1	1
"we absolutely agree"	0	0
"I absolutely support"	1	1
"we absolutely support"	0	0
"strongly support"	18	25
"donot object"	0	0
"don't object"	0	0
"no objection"	5	5

"We welcome"	57	150
"no objections"	2	2
"all agreed"	2	2
"generally agree"	31	64
Total	**513**	**2459**

Table 5.1 Agreement Phrases per Comment Letters

Table 5.2 presents the results coded at the “Disagree” node.

Agreement Phrase	Number of Sources	Number of occurrences in source
"I disagree"	4	18
"do disagree"	1	1
"I do not agree"	5	9
"we do not agree"	54	95
"does not agree"	6	6
"doesn’t agree"	0	0
"don't agree"	0	0
"we disagree"	53	97
"disagrees"	12	66
"does disagree"	0	0
"are in disagreement"	0	0
"is in disagreement"	0	0
"we fully disagree"	0	0
"i fully disagree"	0	0
"I absolutely disagree"	0	0
"we absolutely disagree"	0	0
"do not support"	29	69
"don't support"	0	0
"not in support"	0	0
"not in favour"	5	5

"we caution against"	5	6
"we object"	2	2
"have concerns"	15	28
Total	**191**	**402**

Table 5.2 Disagreement Phrases per Comment Letters

5.2 Comment Letters per Question: Results

Table 5.3 presents the results for the coding per question.

ED 2015 Question Number	Number of sources in response to the question	References
1	149	2192
3	147	2211
13	140	2141
14	134	2117
6	132	2038
12	132	2063
4	131	2085
8	130	2097
2	128	2040
9	123	2013
10	119	1950
16	117	1892
7	115	1876
11	115	1883
5	106	1788

17	106	1790
15	105	1849
18	84	1491

Table 5.3 Comment Letters per Question

Respondents were asked by the IASB to try to limit the comments to questions which they felt warranted their responses. Therefore, Question One was flagged as a question which generated a high level of interest amongst the public (most frequently answered: 149 sources) and selected for further analysis.

5.3 Comment Letters per sub-question (Question One): Results

Table 5.4 presents the results for the coding of Question One per sub-question.

Sub-question	Number of Sources
B Prudence	130
A Stewardship	124
C FR = SOF	113
D MU dec REL	110
E FR +Rel = FQC	109

Table 5.4 Comment Letters per sub-question (Question One)

Respondents were asked by the IASB to try to limit the comments to questions which they felt warranted their responses. Question One (b) was answered the greatest number of times (130 sources). Therefore, Question One (b) was flagged as a question which generated a high level of interest amongst the public.

5.4 Approbation per Sub-Question (Question One): Results

Table 5.5 presents the results for the Approbation per Sub-Question for Question One.

Question	Number of Sources	Number of agreement phrase references
B. Prudence	130	
Agree	81	117
A. Stewardship	124	
Agree	91	114
C. FR =SOF	113	
Agree	82	93
D. MU dec REL	110	
Agree	67	82
E. FR +Rel = FQC	109	
Agree	77	93

Table 5.5: Approbation per Sub-Question: Question One

5.5 Disagreement per Sub-Question (Question One): Results

Table 5.6 presents the results for the Disagreement per Sub-Question for Question One.

Question	Number of Sources	Number of disagreement phrase references
B. Prudence	130	194
Disagree	24	29
A. Stewardship	124	161
Disagree	3	3
C. FR =SOF	113	137
Disagree	1	1

D. MU dec REL	110	138
Disagree	15	18
E. FR +Rel = FQC	109	134
Disagree	4	4

Table 5.6: Disagreement per Sub-Question: Question One

5.6 Agreement vs Disagreement per Sub-Question (Question One)

Table 5.7 presents the results for the Agreement versus Disagreement per Sub-Question for Question One.

Questions	No. of sources	Proportion of sub-question total (X)	Phrase references	Proportion of sub-question total (Y)	Overall agreement factor (Z)
B. Prudence	130		146		52,06%
Agree (a)	81	62,31%	117	80,14%	
Disagree (d)	24	18,46%	29	19,86%	
A. Stewardship	124		117		82,92%
Agree	91	73,39%	114	97,44%	
Disagree	3	2,42%	3	2,56%	
C. FR =SOF	113		94		84,78%
Agree	82	72,57%	93	98,94%	
Disagree	1	0,88%	1	1,06%	
D. MU dec REL	110		100		55,64%
Agree	67	60,91%	82	82%	
Disagree	15	13,64%	18	18%	

E. FR +Rel = FQC	109		9		79,36%
Agree	77	70,64%	93	95,88%	
Disagree	4	3,67%	4	4,12%	

Table 5.7: Agreement vs Disagreement per Sub-Question (Question One)

Question One (b) was identified as the question with lowest overall agreement factor with approximately 52%. Eighty-one sources contained agreement phrases and 24 sources contained disagreement phrases. There were 117 agreement phrases used and 29 disagreement phrases. This question was therefore selected for further (thematic) analysis.

5.7 ED 2015: Prudence

Chapter 2 of the ED 2015 includes a discussion regarding Prudence under the chain of headings as presented in Figure 5.1. The discussion is presented as follows:

"Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets and income or the overstatement of liabilities and expenses, because such mis-statements can lead to the overstatement of income or the understatement of expenses in future periods." (IFRSs Foundation (a), 2015).

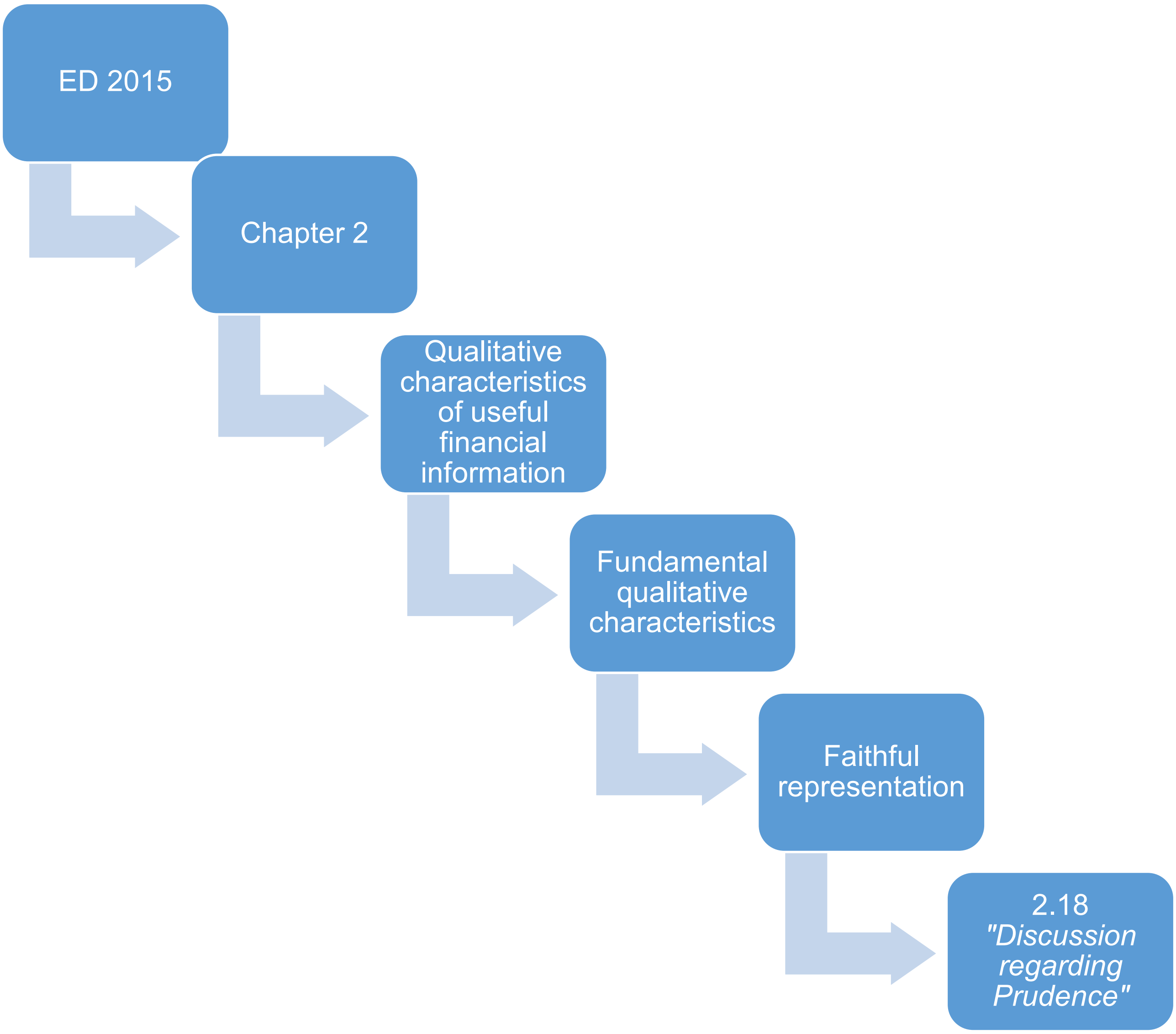

Figure 5.1 Prudence in the ED 2015

5.8 Thematic analysis: Q1 (b) Bias or Counter-Neutral

The first theme identified was the "Bias or Counter-Neutral" theme which consisted of 12 comments from 12 different sources. Table 5.8 presents the comments made (verbatim) in relation to this theme. The Basis of Conclusions to the Exposure Draft 2015 presented the following regarding this theme:

"*The Framework for the Preparation and Presentation of Financial Statements (the 'pre-2010 Framework') stated that financial statements should be neutral; that is, free* *from bias, and went on to discuss the need for preparers to exercise prudence when preparing financial statements:*

Neutrality

To be reliable, the information contained in financial statements must be neutral, that is, free from bias. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a predetermined result or outcome.

Prudence

The preparers of financial statements do, however, have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, the probable useful life of plant and equipment and the number of warranty claims that may occur. Such uncertainties are recognised by the disclosure of their nature and extent and by the exercise of prudence in the preparation of financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and therefore, not have the quality of reliability." (IFRSs Foundation (b), 2015)

1. *"Being prudent in conditions of uncertainty introduces an element of bias in judgement that would understate income, understate assets and overstate liabilities. Worse yet, this bias is likely to be counter-cyclical. In good times, management may be more prudent in understating income and in bad times, less prudent."* Dr Pearl Tan: Singapore Management University

2. *“We caution against the proposal to reintroduce the prudence concept to the framework for the reasons it was previously removed. It was seen to detract from the concept of neutrality and was used to justify overprovisioning and profit smoothing.”*

Rob Ward: Chartered Accountants Australia and New Zealand

3. *“We disagree with including prudence as a characteristic of neutrality. Neutrality – as discussed in BC2.7 and BC2.8 – refers to accounting policies applied as a whole and requires them to be neither “optimistic” nor “pessimistic”; prudence is related to making judgements on specific issues.”*

Romuald Bertl: The Austrian Financial Reporting and Auditing Committee

4. “While the SAG acknowledges the view of certain stakeholders that there should be an explicit reference to “prudence” in the CF, the SAG believes that this could cause confusion and could adversely affect the concepts of “relevance” and “faithful representation” if it were used to prohibit the recognition of unrealized gains or to require bias to be used in measurement. Many members of the SAG would therefore prefer not to see the term “prudence” used in the CF.”

The Institute of International Finance

4. *“I do not agree with the reintroduction of prudence. I think prudence do not equal to neutrality. Moreover, neutrality is hard to say in financial reporting and it makes bias difficult to detect.”*

Cheng Kuai

5. “*However, we do have concerns about reintroducing prudence. When the Board updated the qualitative characteristics that focused on relevance and faithful representation, the emphasis was placed on neutrality and thus removed any notion*

of prudence/conservatism. In fact, entities could rely on prudence to introduce a degree of conservatism in the measurement inconsistent with neutrality." Michael Monahan: The American Council of Life Insurers
6. *"Even though the Basis for Conclusions is in its developments consistent with how EFRAG perceives the role of prudence, EFRAG disagrees with the concluding statements and with how it is finally dealt with in the ED which: … (b) Makes neutrality trump prudence".* Peter Sampers: The Dutch Accounting Standards Board
7. "*The way it has been stated there prudence is a quality (caution in the face of uncertainty) which should be followed in the preparation of financial statements. This approach risks encouraging earnings management by apparently giving companies the freedom to reduce profits by applying 'prudence' in the preparation of their accounts when that is convenient. Prudence also seems inherently inconsistent with neutrality and so cannot be incorporated within that concept.* *When there is significant uncertainty with regards to an asset or liability then that should be properly reflected in the risk premium or adjustment that is made in reaching either an assessment of any impairment of a historical cost element or one at fair value. The uncertainty must be incorporated to achieve an unbiased measurement. It is often the case that external parties in valuing assets and liabilities may place more weight on downside rather than on upside risks."* Richard Martin: The Association of Chartered Certified Accountants
8. *"We consider neutrality to be an essential aspect of the credibility of financial statement information and are concerned that some of the material in the Conceptual Framework can be seen to endorse bias…"* Linda F. Mezon: Canadian Accounting Standards Board

9. “The concept of prudence is inconsistent with that of neutrality. We also do not support the concept of “cautious prudence”. Let it rest in peace!” Altaf Noor Ali Chartered Accountants
10. *“However, we do not fully agree with paragraph 2.18 as we do not support that prudence necessarily contributes to neutrality.”* Marta Soto: Telefónica, S.A.
11. *“The AASB disagrees with the reintroduction of the term ‘prudence’. The AASB observes that prudence has been reflected in the proposals as having the same meaning as neutrality or being consistent with neutrality. The AASB does not regard prudence as having the same meaning as neutrality or being consistent with neutrality.”* Kris Peach: The Australian Accounting Standards Board
12. *“We are not in favour of reintroducing an explicit reference to the notion of prudence to support the meaning of neutrality.”* Nixon Omindi: The Institute of Certified Public Accountants of Kenya

Table 5.8 Theme: Bias or Counter-Neutral

5.9 Thematic analysis: Q1(b) Cautious or Asymmetric Prudence

The second theme identified was the “Cautious or Asymmetric Prudence” theme which consisted of 12 comments from 12 different sources. Table 5.9 presents the comments made (verbatim) in relation to this theme. The Basis of Conclusions to the Exposure Draft 2015 presented the following regarding this theme:

“Cautious prudence

The IASB considers that prudence (defined as the exercise of caution when making judgements under conditions of uncertainty) can help achieve neutrality in applying accounting policies (the aspect of neutrality described in paragraph BC2.7(b)). Thus, cautious prudence is a factor in giving a faithful representation of assets, liabilities, equity, income and expenses. Setting out that message clearly in the Conceptual Framework can be expected to:

(a) help preparers, auditors and regulators counter a natural bias that management may have towards optimism; for example, it would point to the need to exercise care in selecting the inputs used in estimating a measure that cannot be observed directly; and

(b) help the IASB to develop rigorous Standards that could counteract any bias by management in applying the reporting entity’s accounting policies.

Therefore, the IASB, in paragraph 2.18 of the Exposure Draft, proposes to reintroduce the term prudence, defined as cautious prudence, in the Conceptual Framework. It notes that the removal of the term prudence in the 2010 revisions led to confusion and perhaps has exacerbated the diversity in usage of this term. People continue to use the term, but do not always say clearly what they mean. In addition, some have claimed that, because the term was removed, financial information prepared using IFRS is not neutral but is in fact imprudent. The IASB thinks that reintroducing the term with a clear explanation that caution works both ways (so that assets and liabilities are neither overstated nor understated) will reduce the confusion.

Asymmetric prudence

Some argue that asymmetric prudence is a necessary characteristic of useful financial information and that prudence cannot be consistent with neutrality. The IASB disagrees with this view. However, the IASB also thinks that not all asymmetry is inconsistent with neutrality.

The selection of neutral accounting policies means selecting accounting policies in a manner that is not intended to increase the probability that financial information will be received favourably or unfavourably by users.

The selection of neutral accounting policies, contrary to fears sometimes expressed:

(a) does not require an entity to recognise the value of the entire entity in the statement of financial position. Paragraph 1.7 of the Exposure Draft states that general purpose financial reports are not designed to show the value of a reporting entity.

(b) does not require the measurement of all assets and liabilities at a current value. Indeed, the proposals in Chapter 6 of the Exposure Draft would not lead to such a requirement.

(c) does not prohibit impairment tests on assets measured at historical cost. Measurement at historical cost (including an impairment test) is consistent with neutrality if that measurement basis is selected without bias; in other words, without slanting, weighting, emphasising, de-emphasising or otherwise manipulating information to increase the probability that it will be received favourably or unfavourably by users.

(d) does not require the recognition of all assets and liabilities. Chapter 5 of the Exposure Draft discusses recognition criteria for assets and liabilities.

Hence, accounting policies that treat gains and losses asymmetrically, could be selected in accordance with the proposals in the Exposure Draft, if their selection is intended to result in relevant information that faithfully represents what it purports to represent. Such an approach is reflected in many existing Standards, for example IAS 37 Provisions, Contingent Liabilities and Contingent Assets requires different recognition thresholds for contingent liabilities and contingent assets. However, the IASB thinks that the Conceptual Framework should not identify asymmetric prudence as a necessary characteristic of useful financial information. In particular, the IASB *rejects the following approaches that some argue would follow from a requirement to apply asymmetric prudence in all circumstances:*

(a) prohibiting the recognition of all unrealised gains. In some circumstances, for example, the measurement of many financial instruments, the recognition of unrealised gains is necessary to provide relevant information to users of financial reports.

(b) prohibiting the recognition of unrealised gains not supported by observable market prices. In some circumstances, measuring an asset or a liability at a current value (which may require the recognition of unrealised gains) provides relevant information to users of financial reports even if the current value must be estimated.

(c) permitting an entity to measure an asset at an amount that is less than an unbiased estimate using the measurement basis selected for that asset or to measure a liability at more than such an amount. Such an approach cannot result in relevant information and cannot provide a faithful representation.

In addition, the IASB notes that if it were to introduce asymmetric prudence, it would need to consider how much bias is appropriate" (IFRSs Foundation (b), 2015)

1. *"we disagree to enforce an interpretation in the sense of so called 'cautious prudence' (BC2.9)."* Dr. Eckhard: German Cooperative and Raiffeisen Confederation
2. *"This is in our view questionable because, prior to this ED, most of those involved have understood prudence as asymmetric, with losses being recognised more readily than gains. This is in line with what the ED labels "asymmetric prudence" (BC2.11 f.). The ED proposes to include cautious prudence in paragraph 2.18 but rejects asymmetric prudence, since the latter is in conflict with neutrality. We disagree with this decision, but we agree with many arguments in the BC that are*

related to prudence. *We are unable to identify what effect cautious prudence may have on financial reporting. Paragraph BC2.9 argues that it may help counter a natural bias that management has towards optimism, which is in our view consistent with asymmetric prudence because it requires that assets and liabilities shall not be treated symmetrically. Further, paragraph BC2.13 suggests that neutrality does not prevent, e.g., writedowns and the immediate expensing of some assets. Conversely, neutrality does not require measurement of all assets and liabilities at fair value. If the IASB argues that to counter a presumed bias by management it may develop standards with asymmetric accounting methods, then it accepts that the outcome of the reporting process should be neutral, not necessarily the accounting methods themselves. If this is the case, it would be helpful to say so in the main text of the Framework, and not provide a detailed discussion only in the Basis for Conclusions. In our view, paragraph 2.18 is void of any particular effect and apparently rules out asymmetric accounting methods.* *We do not understand the term "cautious prudence" itself. The use of the term "prudence" is in our view not necessary when referring to "the exercise of caution when making judgements under conditions of uncertainty" (paragraph 2.18). The definition seems more reliant on the term "caution" than the term "prudence". Hence, it is not clear to us why the term "prudence" is even needed and used in its current form in the newly proposed Framework. We do not understand BC5.45, which seems to suggest that the Framework is silent on applying a symmetric approach for the recognition of income and expenses. Similarly, BC6.57 suggests that the IASB may set asymmetric threshold levels of tolerable uncertainty for assets and liabilities."* *Romuald Bertl: The Austrian Financial Reporting and Auditing Committee*
3. *"We agree with this but in cases of uncertainty we believe there should be more certainty, i.e. a higher threshold to apply, before income/assets are recognised than before expenses/losses are recognised, i.e. 'asymmetric' prudence. In this context,*

the Basis for Conclusions2 considers 'cautious prudence' and 'asymmetric prudence'. It states that accounting policies that treat gains and losses asymmetrically could be selected under the ED if the resulting information is relevant and faithfully represents what it purports to represent, but that the IASB thinks the CF should not refer to asymmetric prudence as a necessary characteristic3. We disagree that only applying asymmetric prudence in some cases should result in a rejection of the term. The CF should acknowledge that asymmetric prudence may at times be necessary in order to provide relevant information." Liz Murrall: The Investment Association
4. *"The Basis for Conclusions mentions that the IASB disagrees that asymmetric prudence is a necessary characteristic of useful financial information. However, accounting policies that treat gains and losses asymmetrically could be selected in accordance with the proposals in the ED if their selection is intended to result in relevant information that faithfully represents what it purports to represent. EFRAG agrees with this. However, EFRAG does not think that the fact that asymmetric prudence should only be applied in some cases would call for a rejection of the term as is done in paragraph BC2.15 of the Basis for Conclusions. Instead EFRAG thinks that the Conceptual Framework should acknowledge that some asymmetric prudence may at times be necessary (as explained in paragraphs BC2.11 and BC2.14)"* Peter Sampers: The Dutch Accounting Standards Board
5. *"We acknowledge the IASB's attempt to achieve clarity in the Basis for Conclusions by drawing a distinction between the two notions of "prudence as caution" and "prudence as asymmetry". However, we are concerned that this guidance is included only in the Basis for Conclusions; we think it should be included in the Conceptual Framework itself. Paragraph BC2.9 is a good example of material that should be included in the Conceptual Framework.*

We are concerned that paragraphs BC2.11 to BC2.15 endorse an asymmetrical approach that is inconsistent with neutrality. In particular, the last sentence in paragraph BC2.11 and the first part of paragraph BC2.14 state:" Linda F. Mezon: Canadian Accounting Standards Board
6. *"However, in cases of uncertainty we believe it preferable to require more certainty before recognising income than is required before recognising expenses. The Basis for Conclusions defines this as 'asymmetric prudence' and BC2.14 makes it clear that treating gains and losses asymmetrically could be appropriate if their selection is intended to result in relevant information that faithfully represents what it purports to represent. However, the IASB explains that they do not consider asymmetric prudence to be a necessary characteristic of useful financial information. We disagree that only applying asymmetric prudence in some cases should result in a rejection of the term and its relegation into the Basis for Conclusions. We consider it unsatisfactory that such a fundamental feature of financial reporting is only reflected in the Basis for Conclusions and encourage the IASB to acknowledge in the Conceptual Framework that asymmetric prudence will sometimes be appropriate when setting standards.* *We believe that asymmetric prudence, correctly understood, is also consistent with neutrality as defined the ED. As explained in our response to question one (a), financial statements' value lies in providing information to its users, the credibility and understandability of which is enhanced by adherence to established conventions and practices which are generally codified in accounting standards. The conventional nature of financial statements needs to be understood, as they are not intended to capture the economic value of the entity or its true economic profit. For example, revenue is recognised over time, but losses are recognised immediately if a contract is onerous, and assets are carried at historical cost less depreciation and impairment, with no uplift to current market value. Although these are departures from 'economic reality', they are not attempts to mislead or influence users' reaction to the information, but rather the result of applying well founded accounting conventions without bias. Thus the financial statements are neutral, not biased and*

are prepared in accordance with accounting principles and accounting standards. Further, as the term 'neutrality' is described in the Conceptual Framework as 'without bias' which is not its natural meaning, we would suggest replacing it with 'unbiased' as this would likely avoid any confusion in reconciling asymmetric prudence with neutrality." Michael Boorman, Colin McDonald and Helen Jewell: BlackRock, Inc.
7. *"We also do not support the concept of "cautious prudence"* Altaf Noor Ali Chartered Accountants
8. *"We do not agree with the ED that proposes to discuss 'asymmetric prudence' (that corresponds to (a) in paragraph 12 of this letter) only in the Basis for Conclusions (BC). We do not object to the IASB's view that the Conceptual Framework should not discuss asymmetrical prudence in Chapter 2 – Qualitative characteristics of useful financial information. However, consistent with the explanations in the BC, we believe that the notion of 'asymmetric prudence' is applicable and important within the standard-setting process. This is because the application of the notion of 'asymmetric prudence' is said to have the effect of counteracting the possible tendency towards an entity using optimistic assumptions in financial reporting."* Yukio Ono: Accounting Standards Board of Japan
9. *"However, the ICAC disagrees with the treatment of the concept of prudence. We think that what ED calls asymmetric prudence, plays an important role in accounting rules and it should be specified explicitly as a general principle in the CF. This would serve as a guide to the IASB in its standard setting process, so that when any specific standard is not in line with this principle, it should be explained in the BC. In our opinion, the concept of prudence is a basic instrument for appropriate accounting treatment of goodwill and acquisition transactions with contingent payments, that is, dependent on future events."*

Ulu Ana Ma Martínez-Piná: Instituto De Contabilidad Y Auditoria De Cuentas
10. *"We have some concerns about the Exposure Draft proposals overcomplicating what should be a relatively simple concept. For example, we believe that there are issues with the detailed drafting of certain of the paragraphs in the Basis for Conclusions. Given that prudence is defined as the exercise of caution, the phrase 'cautious prudence' would literally mean the 'cautious exercise of caution', which we think is not particularly meaningful (and we are not at all sure how this will be interpreted by non-English speakers or translated into other languages). Furthermore, paragraph BC2.10 notes that it is proposed to "reintroduce the term prudence, defined as cautious prudence, in the Conceptual Framework". It does not make sense to us to define the term in this way, nor can we see exactly where it has been defined in this way. The definition of prudence is in the glossary in Appendix B. In our view, the concept of prudence should be simply defined such that it is clear what the Board considers are appropriate interpretations of the term in the context of the preparation of financial statements, and what inappropriate interpretations of the term might be. Some examples to illustrate this might be helpful guidance for preparers. If references to 'cautious prudence' and 'asymmetric prudence' are retained, their roles (or otherwise) in financial reporting should be clearly explained in the Conceptual Framework itself rather than the Basis for Conclusions."* Roger Harrington: BP plc
11. *"It might be better for the IASB to communicate 'cautious prudence' through the use of a different word, for example, 'balance', and to include more guidance about the notions of caution, carefulness, and the absence of management bias, rather than reintroducing the term prudence into the Conceptual Framework."* Kris Peach: The Australian Accounting Standards Board
12. *"ICGN supports an explicit reference to the notion of prudence but rather than stating that prudence is important in achieving neutrality as proposed by the IASB*

we believe the CF should acknowledge that some asymmetric prudence may at times be necessary. Asymmetric prudence would encourage management to recognise losses and liabilities earlier than they would recognise gains and assets." Erik Breen: International Corporate Governance Network

Table 5.9 Theme: Cautious or Asymmetric Prudence

5.10 Thematic analysis: Q1 (b) Recommendations if Reintroduced

The third theme identified was the "Recommendations if Reintroduced" theme, which consisted of 9 comments from 9 different sources. Table 5.10 presents the comments made (verbatim) in relation to this theme

1. *"However, if the Board decides to reintroduce prudence in the Conceptual Framework, we suggest that prudence be described as the general exercise of "care" in making judgements under conditions of uncertainty, as we consider "care" to infer a more balanced approach than "caution"."* Robert Dohrer: RSM International Limited
2. *"However, if the IASB proceeds with the reintroduction of prudence, it is essential that the particular meaning of prudence that has been adopted is clearly explained. It must be clear that prudence is there only to support neutrality and that prudence is not asymmetric. If prudence were to be defined in such a way that it allowed bias or asymmetry, it would be inconsistent with neutrality. In order for information reported to be a faithful representation, it must be complete, neutral and free from error. If prudence were to be defined in such a way that it did not simply support neutrality but potentially led to bias or asymmetry, it would undermine faithful representation. Asymmetric prudence results in financial statements that are less transparent, and potentially misleading. Hence, asymmetric prudence is not consistent with the objective of financial reporting. To clarify that prudence is there*

only to support neutrality and does not lead to bias or asymmetry, we recommend that the description of prudence be revised as follows: *Neutrality is supported by the exercise of prudence. Prudence is the exercise of giving careful consideration to all relevant facts and circumstances in a balanced manner when making judgements under conditions of uncertainty and means that assets, liabilities, income and expenses are not overstated or understated.* *In addition, within the discussion of faithful representation, care must be taken not to inadvertently elevate prudence to the same status as a qualitative characteristic"* Kimberley Crook: The New Zealand Accounting Standards Board
3. *"We propose that prudence be reintroduced as defined in the Framework of 1989. This means that prudence is another characteristic of faithful representation in addition to neutrality, and it means acknowledging that these two characteristics may contradict each other, so that the IASB has to trade off the two in developing IFRSs. There are many other occasions in which similar trade-offs have to be made. Moreover, it should be made clear – again, in accordance with the 1989 definition – that while the trade-off between prudence and neutrality is relevant for standard setters, it should not be used by preparers as a justification of deliberate under-valuations or over-valuations. Alternatively, if neutrality and prudence aim at the application of standards, but not to the standards themselves, it would be useful to clarify this or move any characteristics that speak to the application to the standards level, e.g., to IAS 1."* Romuald Bertl: The Austrian Financial Reporting and Auditing Committee
4. *"If the IASB decides to include the word in the CF, the SAG suggests that its definition and explanatory text should remain as set out in 2.18 and in the description of "cautious prudence" under BC 2.9 and BC 2.10. The SAG strongly believes that any attempt to broaden this definition or link it to the definition of "asymmetrical prudence" as discussed under BC2.11 to BC 2.15, is unnecessary. In particular, it*

would be contrary to the neutrality and objectivity of financial statements to introduce a general expectation that losses should or would be recognized earlier than gains. When using the CF for standard-setting purposes, the SAG recommends the IASB consider each proposed standard on its own merits, given the facts and circumstances at issue." The Institute of International Finance
5. *"EFRAG suggests building on the content of the Basis for Conclusions to provide for a meaningful re-introduction of prudence in the Conceptual Framework along the following lines: A neutral depiction is without bias in the definition and application of accounting policies and the selection and presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users. As a result, neutral representation cannot allow for the deliberate understatement, or overstatement, of assets and income and liabilities and expenses. Providing relevant information that faithfully represents what it purports to represent requires the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. It helps the IASB develop rigorous standards and practitioners determine reasonable estimates. It may result under some circumstances in accounting policies that treat income and expenses asymmetrically, however only when this is intended to result in relevant information that faithfully represents what it purports to represent. Under these circumstances, prudence is not contrary to neutrality, it supplements neutrality in providing useful information. The Basis for Conclusions could remain virtually unchanged, except that the conclusions reached under 'cautious prudence' and 'asymmetric prudence' would have to be modified to lead to the above outcome, taking into account all of EFRAG's comments."* Peter Sampers: The Dutch Accounting Standards Board
6. *"However, if "prudence" is to be reintroduced, we agree that this discussion is appropriately positioned within the context of neutrality. We also agree with the*

proposed definition of prudence as "the exercise of caution when making judgements under conditions of uncertainty". We recommend adding a statement to paragraph 2.18 to provide greater clarity that the same degree of caution should be used when recognizing either positive or negative changes in any estimate. Such a discussion could better emphasize that estimates should be unbiased and that the degree of caution applied should promote a balanced approach so that estimates of assets and liabilities are neither understated nor overstated.

Further, we are concerned that paragraph BC5.45 could be used to support an asymmetrical approach and think the last sentence should be removed as shown below:

"Some respondents to the Discussion Paper suggested that more measurement uncertainty is tolerable when recognising expenses than when recognising income. They described this as an application of asymmetric prudence (applying the terminology in paragraph BC2.6), not cautious prudence. The IASB thinks that the level of measurement uncertainty that makes a measure lose relevance depends on the circumstances and can be determined only when developing specific Standards. Hence, the Conceptual Framework neither requires nor prohibits a symmetrical approach that would set the same level of measurement uncertainty as being tolerable for the recognition of both income and expenses."

We think it essential that the Conceptual Framework deal explicitly with the risk that bias could affect a measurement. A discussion of moral hazard in the Conceptual Framework could enhance the discussion of neutrality and any discussion of the concept of prudence. We recommend adding the following discussion of moral hazard, which includes paragraph BC2.5(e), to the Conceptual Framework:

"Moral hazard is a term used to describe situations when a party has the opportunity to take risks or act with self-interest, to the detriment of another. The exercise of prudence helps to align the interests of shareholders and managers and can reduce moral hazard.""

Linda F. Mezon: Canadian Accounting Standards Board
7. *“Accordingly, we suggest that the concept of ‘asymmetrical prudence’ be explicitly discussed in Chapter 5 – Recognition and derecognition of the Conceptual Framework and Chapter 6 – Measurement (Please note that we are not suggesting use of this term itself.) Please see our specific suggestion in our comments to Question 6 of the ED. Based on the feedback received on the ASBJ’s RfV, we have found that this view is shared by financial statement preparers.”* Yukio Ono: Accounting Standards Board of Japan
8. “*If prudence is to play a part in standard setting, the AASB considers that this should be at the standards level, not in the Conceptual Framework. At a standards level there is less likelihood for there to be a misunderstanding (or different understandings) of the impact of prudence because it is being used in a particular context. In the AASB’s outreach, constituents observed that the absence of prudence has not prevented the IASB from developing standards that could be regarded as embedding an element of prudence – with the prime example being the expected loss model (in particular, the 12-month loss allowance when there is no significant increase in credit risk since initial recognition) in the final version of IFRS 9 Financial Instruments.* *If the IASB feels compelled to incorporate prudence in the Conceptual Framework, the AASB could accept the current proposal to reintroduce ‘prudence’, provided the manner in which it is to apply is clearly articulated in the Conceptual Framework, and is not extended to include asymmetric prudence. The AASB strongly objects to asymmetric prudence as a concept being embedded into the Conceptual Framework. In this context, the AASB thinks it would be important for the Conceptual Framework to articulate that, because prudence should support neutrality, it therefore applies to the measurement of financial information, rather than in the determination of an appropriate accounting policy.”* Kris Peach: The Australian Accounting Standards Board

9. *"ICGN believes the concept of prudence in accounting is related to the notion of corporate governance. In our opinion, prudence and conservatism are central to the overall corporate governance function and therefore IFRS should incorporate these concepts in future accounting standards"* Erik Breen: International Corporate Governance Network

Table 5.10 Theme: Recommendations if Reintroduced

5.11 Thematic analysis: Q1 (b) Diverse Interpretations

The fourth theme identified was the "Diverse Interpretations" theme, which consisted of 7 comments from 7 different sources. Table 5.11 presents the comments made (verbatim) in relation to this theme. The Basis of Conclusions to the Exposure Draft 2015 presented the following regarding this theme:

"Some respondents to the Discussion Paper (including some user groups) supported the removal of the reference to prudence from the Conceptual Framework. They stated that:

(a) there is no common understanding of what prudence means. Different parties interpret it differently. Consequently, including the word in the Conceptual Framework could lead to inconsistent application. Moreover, prudence could be misinterpreted in a way that is inconsistent with neutrality."

and,

"Having considered how interested parties have interpreted the removal of the term 'prudence' in 2010, and the responses to the Discussion Paper, the IASB noted that prudence is a term used by different people to mean different things. In particular:

(a) some use it to refer to a need to be cautious when making judgements under conditions of uncertainty, but without needing to be more cautious in judgements relating to gains and assets than for those relating to losses and liabilities ('cautious prudence'—see paragraphs BC2.9–BC2.10).

(b) others use it to refer to a need for asymmetry: losses are recognised at an earlier stage than gains are ('asymmetric prudence'—see paragraphs BC2.11–BC2.15). There is a range of views on how to achieve such asymmetry, and to what extent. For example, some advocate a concept of prudence that would:

(i) require more persuasive evidence to support the recognition of gains (or assets) than of losses (or liabilities); or

(ii) require the selection of measurement bases that include losses at an earlier stage than gains.

An understanding of prudence and its different interpretations is linked to an understanding of the term 'neutrality'. The IASB has identified two aspects of neutrality:
(a) selection of neutral accounting policies: selecting accounting policies in order to provide relevant information that faithfully represents the items that it purports to depict. A faithful representation requires, among other things, that the depiction is neutral, i.e. not 'slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users'; and

(b) neutral application of accounting policies: applying the selected accounting policies in a neutral (unbiased) manner." (IFRSs Foundation (b), 2015)

1. *"The draft rejects the European understanding of prudence in the sense of accounting conservatism' by calling it 'asymmetric prudence' and a way to manipulate financial information in order to generate presentations favourably or*

unfavourably for users. These paragraphs of the ED are short-sighted and less balanced. We do not intend to repeat all arguments here but recommend to open the framework for the issue of different accounting traditions and their impact on accounting.” Dr. Eckhard: German Cooperative and Raiffeisen Confederation
2. *“We are concerned that, despite the Board’s effort to define it as “cautious prudence”, the term is culturally synonymous with “conservatism” in many jurisdictions (e.g. France and Germany), thus leading to “asymmetric prudence” (i.e. understating assets and overstating liabilities).”* Robert Dohrer: RSM International Limited
3. *“We disagree with the reintroduction of the term ‘prudence’. The term ‘prudence’ is interpreted and applied differently in different jurisdictions. Given the danger of misinterpretation and misapplication, we do not support prudence being reintroduced into the Conceptual Framework.”* Kimberley Crook: The New Zealand Accounting Standards Board
4. *“The SAG disagrees that conceptually “neutrality is supported by the exercise of prudence” as stated under 2.18 because as noted in 2.17 “a neutral depiction is without bias”. Although the ED attempts to define “prudence” as the exercise of caution when making judgments in conditions of uncertainty, the word inevitably has some ambiguity, both intrinsically and because of the past use of the term, which risks some stakeholders’ placing undue emphasis on it.* The Institute of International Finance
5. “Further, notwithstanding the IASB’s attempt to define prudence in a particular way, we consider that the differences from its common usage and historical

interpretation will create rather than alleviate uncertainty in applying the concept of neutrality.” Shane Buggle: Australia and New Zealand Banking Group Limited
6. *“We disagree with reintroducing an explicit reference to the term “prudence” because we are concerned that it will continue to be interpreted to mean asymmetric conservatism, which is inconsistent with neutrality. This concern is supported by our outreach which demonstrated that although prudence is explicitly defined in the Exposure Draft, it continues to be interpreted by stakeholders to mean asymmetry.”* Linda F. Mezon: Canadian Accounting Standards Board
7. *“The AASB is concerned ‘prudence’ will be interpreted and applied differently not only in different jurisdictions, but to different degrees by different groups (such as users, compared with preparers). The AASB has received feedback through its outreach activity on the EDs that constituents are concerned about the historical association, within the accounting profession, of the term ‘prudence’ with conservatism. Given the risk of misinterpretation and misapplication, the AASB supports retaining the position in the existing Conceptual Framework of not referring to prudence.”* Kris Peach: The Australian Accounting Standards Board

Table 5.11 Theme: Diverse Interpretations

5.12 Thematic analysis: Q1 (b) Asymmetric Standards

The fifth theme identified was the “Asymmetric Standards” theme, which consisted of 6 comments from 6 different sources. Table 5.12 presents the comments made (verbatim) in relation to this theme

1. *"Many IFRSs include requirements linked to asymmetric prudence, including standards such as IAS 2, IAS 16, IAS 36, and IFRS 15. We find it conceptually difficult to have a Framework that does not allow for asymmetric prudence, when many – perhaps even the majority – of the current IFRSs require it. Moreover, we consider cost-based measurement (including impairment) to be inherently asymmetric. That means that introducing asymmetric prudence as an exception to the Framework's principles is unconvincing. Including asymmetric prudence in the Framework is necessary to support other statements in the Framework (such as cost-based measurement) and it also provides a conceptual basis for including prudence in subsequent standards."*

Romuald Bertl: The Austrian Financial Reporting and Auditing Committee

2. "*Moreover, asymmetric prudence is already applied by the IASB in setting standards, for example:*

- *Revenue is to be recognised over time, but losses are recognised up front if the contract is onerous (i.e. at unfavourable terms).*
- *Liabilities must be recorded when probable, for example, guarantees or warranties, even when they have not yet been called in, and yet a contingent asset has to be virtually certain.*
- *Inventory is typically carried at lower of cost or net realisable value.*
- *Asset impairment tests are required to ensure that the carrying amount in the statement of financial position is not greater than the [market] value of the asset, with no corresponding requirements to recognise gains in value.*

In this context, we consider cautious prudence is more a matter for preparers, not standard setters, and we believe that this should be made clear in the framework. Investors want companies to err on the side of caution, i.e. be prudent, at an individual item level in the face of uncertainty."

Liz Murrall: The Investment Association

3. *"As explained in its comment letter in response to the DP, EFRAG considers that prudence represents a degree of caution that generally recognises downside risks and strongly questions whether upside potential inherent in uncertain future events should be recognised. This would mean that when the IASB is setting Standards, it could sometimes set thresholds for recognising losses lower than the thresholds for recognising gains. Currently, several Standards include such different thresholds."* Peter Sampers: The Dutch Accounting Standards Board
4. *"We think this material is inconsistent with the concept of neutrality and should be removed. The Conceptual Framework should adopt a symmetrical approach to neutrality and prudence rather than attempting to justify current accounting standards as is done in the excerpt from paragraph BC2.14 above. Any asymmetry the IASB considers necessary should be decided and justified at the standards level. An accounting policy needs to be applied neutrally by the preparers of the standards unless the standard itself requires asymmetry. We acknowledge that the IASB can decide at a standards level whether to depart from this approach and require preparers to adopt requirements that treat gains and losses asymmetrically. We think the Basis for Conclusions for an individual standard should explain that exception rather than include these inconsistent explanations as part of the Basis for Conclusions to the Conceptual Framework."* Linda F. Mezon: Canadian Accounting Standards Board
5. *"Lastly, incorporating prudence (both cautious and asymmetric) within the Conceptual Framework reinforces its importance as a fundamental characteristic of good financial reporting and supports its inclusion within many existing standards. Prudence is embedded in both newly issued standards such as IFRS 15 Revenue from Contracts with Customers, which allows variable consideration to be recognised, only if it is highly probable that it will not be subject to significant reversal, and those standards that have been in existence for many years, for example IAS 37 Provisions, Contingent Liabilities and Contingent Assets which*

requires liabilities to be recognised when 'probable' but assets only when they are 'reasonably certain' – which is a clear example of asymmetric prudence." Michael Boorman, Colin McDonald and Helen Jewell: BlackRock, Inc.
6. *"This asymmetrical prudence can be seen in the standards themselves, for example in the treatment of onerous and executory contracts (IAS37), contingent assets and liabilities (IAS37), deferred tax assets and liabilities (IAS19) and in variable consideration in IFRS15. However, in other cases such as financial instruments, there is basically no asymmetric recognition.* *This possibility of asymmetry is confirmed in the basis of conclusion but being so self-evidently important in standard setting it should be dealt with in the CF itself, as a possibility (not a necessity) in Chapter 1 and under recognition criteria in Chapter 4."* Richard Martin: The Association of Chartered Certified Accountants

Table 5.12 Theme: Asymmetric Standards

5.13 Thematic analysis: Q1 (b) Preparation vs Standard Setting

The sixth theme identified was the "Preparation vs Standard Setting" theme, which consisted of 3 comments from 3 different sources. Table 5.13 presents the comments made (verbatim) in relation to this theme

1. *"Even though the Basis for Conclusions is in its developments consistent with how EFRAG perceives the role of prudence, EFRAG disagrees with the concluding statements and with how it is finally dealt with in the ED which:* *(a) Fails to acknowledge the possibility of asymmetric outcomes;*

(b) Makes neutrality trump prudence; and *(c) Seems to focus on how financial statements are prepared and not on how standards are set."* Peter Sampers: The Dutch Accounting Standards Board
2. *"However the CF is principally an aid to the IASB to help set standards that are coherent and achieve the right objectives, rather than a guide to preparers. We see an important role for what could be termed prudence in standard setting, particularly in the possibility that there should in some cases be asymmetric recognition of assets and liabilities and gains and losses."* Richard Martin: The Association of Chartered Certified Accountants
3. "*We think it should be clarified whether the Framework addresses prudence from the view of the producer of financial statements or the standard setter. In summary, we believe that neutrality is superior to prudence from a producer's perspective. From a standard setting perspective, we believe that the Framework should allow for asymmetric recognition thresholds for asset and liabilities and asymmetrical treat of gains and losses.* *Prudence from a producers perspective is described in the exposure draft as the caution when making judgments under condition of uncertainty. Further, paragraph 2.18 states that the exercise of prudence means that assets and income are not overstated and liabilities not understated, but equally assets should not be understated and liabilities not understated. When an asset should neither be overstated nor understated, the wording regarding prudence in substance requires the measurement to be neutral. We believe neutrality is superior to prudence, and even though the proposed wording of paragraph 2.18 does not conflict with this view, we think it should be removed, as it is superfluous. Further, we do not think it is a good idea to take a well-known concept, like prudence, and give it a new meaning as this increases the risk of misunderstanding and the concept being applied in accordance with previous understanding of the term. We believe that words like*

"diligent", "cautious" or "objective" better describes what seems to be the intention of paragraph 2.18. We suspect that the notion of prudence is included to accommodate those who believe that prudence should be re-introduced, but redefining the meaning so that it in reality is not reintroduced. However, compromises do not give a good conceptual framework, either for those who support prudence (in the previous/current understanding of the concept) and those who do not. *Asymmetric prudence from a standard setting perspective We believe asymmetric standards could be relevant in some situations, and the basis for such asymmetry should be explicit in the Framework. We also think it is unclear from the Framework whether asymmetric standards are in accordance with the neutrality and prudence notion of the Framework. BC 2.14 states that asymmetry is not necessarily in conflict with neutrality. We think this should be clarified within the Framework itself."* Erlend Kvaal: Norsk RegnskapsStiftelse (The Norwegian Accounting Standards Board)

Table 5.13 Theme: Preparation vs Standard Setting

5.14 Thematic analysis: Q1 (b) Patrick Finnegan

The seventh theme identified was the "Patrick Finnegan" theme, which consisted of 3 comments from 3 different sources. Table 5.14 presents the comments made (verbatim) in relation to this theme. The Basis of Conclusions to the Exposure Draft 2015 presented the following regarding this theme:

"Mr Finnegan disagrees with the decision to reintroduce an explicit reference to the notion of prudence in the Conceptual Framework to support the meaning of neutrality, i.e. a lack of bias in the selection or presentation of financial information. He believes that financial information possessing the characteristic of neutrality is already free from bias. Mr Finnegan thinks that if prudence is included in the Conceptual Framework or any Standard, it would introduce bias and would create confusion in the minds of many

preparers about whether or how it should be applied. Even though the Exposure Draft attempts to make it clear that prudence is consistent with neutrality, Mr Finnegan disagrees that prudence (the exercise of caution) is consistent with neutrality. He believes the use of that term within the Conceptual Framework could result in:

(a) Standards designed to produce weighted outcomes.

(b) preparers being cautious by understating assets and overstating liabilities or being cautious in communicating bad news and hence overstating assets and understating liabilities. Such actions have the potential to confuse investors and lower their confidence in financial reporting.” (IFRSs Foundation (b), 2015)

1. *“We agree with Patrick Finnegan’s alternative view (paragraph AV16 of the ED) that financial information possessing the characteristic of neutrality is already free from bias, and that reinstating prudence would on the contrary introduce bias and confusion. We believe that the same arguments that led the Board in 2010 to remove reference to prudence from the previous Conceptual Framework (as reminded in paragraph BC2.2 of the Basis for Conclusions on the ED) – i.e. the term could be interpreted in ways that are inconsistent with neutrality and lead to inconsistent application - are still true.”* Robert Dohrer: RSM International Limited
2. *“In this regard, we support the alternative view of Patrick Finnegan in paragraph AV16 of the Exposure Draft, and in particular, his concerns about the introduction of prudence leading to bias and potential confusion about when and how prudence should be applied.”* Kimberley Crook: The New Zealand Accounting Standards Board
3. *“We agree with Patrick Finnegan’s alternative view (paragraph AV16 of the ED) that financial information possessing the characteristic of neutrality is already free*

from bias, and that reinstating prudence would on the contrary introduce bias and confusion." Nixon Omindi: The Institute of Certified Public Accountants of Kenya

Table 5.14 Theme: Patrick Finnegan

5.15 Thematic analysis: Q1 (b) Neutrality is Sufficient

The eighth theme identified was the "Neutrality is Sufficient" theme, which consisted of 3 comments from 3 different sources. Table 5.15 presents the comments made (verbatim) in relation to this theme

1. *"The ED regards "cautious prudence" as a reminder to managers to recognise gains with an equal probability to losses. However, this seems to be implied by "neutrality" itself, which is already included in the criterion of faithful representation."* *Romuald Bertl: The Austrian Financial Reporting and Auditing Committee*
2. *"Prudence is not important to achieve neutrality."* *Michael Monahan: The American Council of Life Insurers*
3. *"We do not support the proposal to reintroduce an explicit notion of prudence. In our view, the existing concept of neutrality is sufficient and appropriate."* Shane Buggle: Australia and New Zealand Banking Group Limited

Table 5.15 Theme: Neutrality is sufficient

5.16 Thematic analysis: Q1 (b) Judgment required

The ninth theme identified was the "Judgment required" theme, which consisted of 2 comments from 2 different sources. Table 5.16 presents the comments made (verbatim) in relation to this theme. The Basis of Conclusions to the Exposure Draft 2015 presented the following regarding this theme:

"Some respondents to the Discussion Paper (including some user groups) supported the removal of the reference to prudence from the Conceptual Framework. They stated that:

……

(b) the exercise of prudence, as interpreted by some, leads to greater subjectivity in the financial statements, which can make it difficult to assess an entity's financial performance."

1. *"Practically, this level of precision in judgement is almost impossible to achieve. We should remember the days when "conservatism" was implicitly or explicitly made to be a desirable attribute in financial reporting. Cookie jar accounting and smoothing of income trends are typically the outcome in such an accounting environment. Such information hardly reflects the real economic trends that the entity is exposed to."* Dr Pearl Tan: Singapore Management University
2. *"ICGN recognizes that asymmetric accounting as compared to neutral accounting may result in financial reports that provide entities with more judgment than allowed under current IFRS which could lead to reduced comparability of financial statements across companies/sectors and/or allow management to manage earnings. We encourage the IASB to incorporate restrictions in the CF that lessen the probability of these outcomes occurring."*

Erik Breen: International Corporate Governance Network

Table 5.16 Theme: Judgment required

5.17 Thematic analysis: Q1 (b) Measurement Uncertainty Sufficient

The tenth theme identified was the “Measurement Uncertainty sufficient” theme, which consisted of 2 comments from 2 different sources. Table 5.17 presents the comments made (verbatim) in relation to this theme. The ED 2015 presented the following regarding this theme:

“One factor affecting the relevance of financial information is the level of measurement uncertainty. Measurement uncertainty arises when a measure for an asset or a liability cannot be observed directly and must be estimated instead. The use of estimates is an essential part of the preparation of financial information and does not necessarily undermine its relevance, but the estimate needs to be properly described and disclosed (see paragraph 2.20).

An estimate can provide relevant information, even if the estimate is subject to a high level of measurement uncertainty. Nevertheless, if measurement uncertainty is high, an estimate is less relevant than it would be if it were subject to low measurement uncertainty. Thus, there is a trade-off between the level of measurement uncertainty and other factors that make information relevant. For example, for some estimates, a high level of measurement uncertainty may outweigh those other factors to such an extent that the resulting information may have little relevance. On the other hand, a high level of measurement uncertainty does not prevent the use of an estimate if that estimate provides the most relevant information.”

1. “*The inclusion of the attribute of “measurement uncertainty” is sufficient to ensure that financial information is not misstated to promote preparer’s interest.”*

Dr Pearl Tan: Singapore Management University
2. “*We agree with proposed treatment of significant measurement uncertainty. We note above that uncertainty otherwise should be reflected by preparers in valuations via the proper reflection of risk. Beyond that we see less of a role for specific prudence to be applied by the IASB in setting the measurement requirements in IFRS.*” Richard Martin: The Association of Chartered Certified Accountants

Table 5.17 Theme: Measurement Uncertainty Sufficient

5.18 Comment Letters per Country: Results

Table 5.18 presents the results for the coding per question.

Country			
UK	44	**Israel**	2
US	20	**Hong Kong**	2
China (suspected)	17	**Sri Lanka**	2
Germany	15	**South Africa**	2
China	14	**Philippines**	1
Australia	14	**Italy**	1
Belgium	11	**Austria**	1
No address	9	**Korea**	1
France	9	**Zimbabwe**	1
Brazil	7	**Zambia**	1
Japan	7	**Mexico**	1
Canada	5	**Norway**	1
Spain	5	**Thailand**	1
Singapore	5	**South Korea**	1
Switzerland	4	**Luxembourg**	1
Sweden	4	**India**	1
Colombia	3	**Uganda**	1
Poland	3	**Indonesia**	1

Netherlands	3	**Denmark**	1
Latin America	3	**Iran**	1
Malaysia	2	**Finland**	1
New Zealand	2	**Kenya**	1
Pakistan	2		
		Total	234

Table 5.18 Comment Letters per Country

Twenty-six sources were unaddressed. Seventeen sources were suspected to be from Chinese students from the Nanjing University, due to overwhelming similarities between in these sources, to sources which did bear the university address. However, this could not be confirmed. Since four sources were not comment letters and three sources were repetitions, 234 sources were included in this analysis (241 - 4 – 3 = 234).

6. Conclusions

In total, agreement phrases occurred 2459 times versus the 402 occurrences of disagreement phrases. 86 percent of the total were agreement phrases and 14 percent were disagreement phrases. This suggests a high level of overall approbation for the proposals made in the ED 2015. In the Basis of Conclusions to the ED 2015, the IASB constantly referred to comments made by respondents to the Discussion Paper 2013 and how these were addressed. Examples of this are demonstrated in the extracts of the Basis of Conclusion to the ED 2015 quoted in Chapter 5. Consequently, this seems to have led to a high level of agreement with the ED 2015 proposals.

Question One was most frequently answered (149 sources). This question has generated a lot of interest since its subject matter has a lot to do with differing interpretation of terms such as:

- Stewardship;
- Prudence;
- Neutrality;
- Faithful Representation;
- Relevance and;
- Substance over form

Question One (b) was flagged as a question which generated a high level of interest amongst the public Question One (b) was answered the greatest number of times (130 sources). The term “Prudence” has had a controversial history being included in the CF1989, removed from the CF 2015 and now being proposed in the ED 2015 to be included in new Conceptual Framework. According to the IASB, there were a number of arguments against the re-instatement of the term in the Discussion Paper 2013 which the IASB took into account when drafting the ED 2015.

Question 1 (b) was also identified as the question with lowest Overall agreement factor with approximately 52%. 81 sources contained agreement phrases and 24 sources contained disagreement phrases. There were 117 agreement phrases used and 29 disagreement phrases.

The following represents a summary of key messages regarding the themes which related to the disagreement:

- Bias or Counter-Neutral: Prudence introduces an element of bias in judgement that would understate income, understate assets and overstate liabilities. The bias is likely to be counter-cyclical. In good times, management may exercise more Prudence in understating income and in bad times, less. Prudence is inconsistent with Neutrality and will be used to justify overprovisioning and profit smoothing

- Cautious or Asymmetric Prudence: Prior to the ED 2015, a number of parties have understood Prudence as asymmetric. The Conceptual Framework should acknowledge that Asymmetric Prudence may at times be necessary in order to provide relevant information. The guidance regarding Cautious Prudence should be in the Conceptual Framework, not on the Basis of Conclusions. The use of the term Prudence is not necessary when referring to "the exercise of caution when making judgements under conditions of uncertainty*".* Since the definition Prudence is 'exercise of caution', the phrase 'Cautious Prudence' therefore mean the 'cautious exercise of caution' which is not ideal. The IASB should convey Cautious Prudence through words such as balance, carefulness, and the absence of management bias, rather than Prudence.

- Recommendations if Reintroduced: Prudence should be described as the general exercise of "care" in making judgements under conditions of uncertainty, as "care" is a more balanced approach than "caution". It must be made clear that Prudence purpose is to support Neutrality and that Prudence is not asymmetric. Prudence should be reintroduced as it was presented in the CF 1989. This would mean that it is included as a Qualitative Characteristic (under Faithful Representation). In terms of standard-setting, it is recommended the IASB consider each proposed standard on its own merits, given the facts and circumstances at issue. Paragraph BC5.45 should be re-evaluated since it may lead to the application of Asymmetrical Prudence. A reference to Moral Hazard in the Conceptual Framework could enhance the discussion of Neutrality.

- Diverse Interpretations: There is a high risk of misinterpretation and misapplication regarding the term Prudence. It has been historically linked to Conservatism, especially in Europe. This will lead to Asymmetric Prudence being applied.

- Asymmetric Standards: Many IFRSs include requirements linked to Asymmetric Prudence, including Standards such as IAS 2, IAS 16, IAS 19, IAS 36, IAS 37 and IFRS 15. The problem is the contradiction. The ED 2015 rejects Asymmetric Prudence, whilst many IFRSs require it

- Preparation vs Standard Setting: The proposals in the ED 2015 focus on how financial statements are prepared and not on how Standards are set. Prudence plays an important role standard setting, particularly in the possibility that there should in some cases be asymmetric recognition of assets and liabilities and gains and losses. Neutrality is superior to Prudence from a producer's perspective.

- Patrick Finnegan: These respondents agreed with what Mr Finnegan stated in paragraph AV16 of the Basis of Conclusions to the Exposure Draft 2015 that Neutrality is already free from bias, and that reinstating Prudence would on the contrary introduce bias and confusion.

- Neutrality is Sufficient: The ED 2015 describes Cautious Prudence as a reminder to managers to recognise gains with an equal probability to losses. This is implied by Neutrality itself.

- Judgement Required: the exercise of Prudence will require high levels of judgement which will "Cookie Jar Accounting", smoothing of income and reduced comparability of financial statements across companies/sectors

- Measurement Uncertainty: The discussion of the concept "Measurement Uncertainty" is sufficient to counteract situational management bias and ensure that financial information is not misstated to promote preparer's interest.

We agree with the IASB's decision to reintroduce Prudence into the Conceptual Framework and the manner thereof. We believe the IASB has considered the comments made against and for the inclusion. Both sides of the argument were clearly listed in the Basis of Conclusions. We do not believe respondents have noted any new points which have not been considered. Through the discussion of Cautious and Asymmetric Prudence, the IASB has presented the term in the ED 2015 and supporting discussion in the Basis of Conclusions in a way that balances the two sides of the argument. It has been explained quite clearly and can be understood by all. Those who have understood Prudence as Conservatism will be able to adjust their understanding via the guidance provided in the ED 2015 and The Basis of Conclusions. This will ultimately result in the enhancement of Neutrality.

We also agree with the following arguments made supporting the inclusion:

- Since certain published IFRS's and soon-to-be published IFRS's propose methods which include elements of Prudence it is critical that Prudence is defined in order for it to be applied correctly and consistently.

- Since managers have a natural bias towards optimism, Prudence is required to mitigate this phenomenon.

- Users of financial statements are usually more concerned about downside risks rather than upside potential. Prudence provides additional confidence to users regarding these risks

- Research has concluded that an element of conservatism, which is a concept of the same ilk as Prudence, has potential benefit in financial reporting.

- Prudence assists in uniting the aims of investors and management and helps avoid the possibility of moral hazard

- The financial crisis proved the need for exercise of Prudence (IFRSs Foundation (b), 2015).

The United Kingdom submitted the highest number of comment letters with 44, being approximately 19% of the total. The United States followed in second with 20 (9%), and China in third with 17 (7%) when taking into account confirmed addresses. China would take second place if the “suspected letters” are taken into account which would give them a grand total of 31 (13%). These countries are global leaders whose economies influence the rest of the world.

South Africa submitted two letters (0.9%), one from The South African Institute of Chartered Accountants (SAICA) and one from The South African Institute of Professional Accountants (SAIPA). There were no letters submitted from South African individuals even though, according to SAICA, there were more than 35 000 South African Chartered Accountants in 2015 (The South African Institute of Chartered Accountants, 2018) and according to SAIPA, there are more than 10 000 Professional Accountants (South African Institute of Professional Accountants, 2018). Additionally, there were no letters submitted from Tertiary Institutions even though there were approximately 461 Post-School Education and Training institutions in South Africa in 2015. There were no letters submitted from audit, tax, or accounting firms even though this sector was valued at R 28 billion in 2015 (Bekke, 2016).

Five African countries in total submitted comment letters. South Africa was the only country which submitted more than one letter with Kenya, Uganda, Zimbabwe and Zambia each submitting one letter respectively. This makes the total number of letters submitted by Africa equal to six which represents less than three percent. The 36 African countries which require IFRS for domestically listed companies represent 22%

of all countries which require IFRS for domestically listed companies. This suggests a low level of participation by African countries in the IASB Due Process.

7. Recommendations

We believe that the IASB has been fair in its approach to revising the Conceptual Framework and correct in its decision to re-introduce the concept of Prudence. Since there has been an overwhelming level of support from the public, we believe the accounting community should embrace the new Conceptual Framework. Businesses and accounting firms should organise workshops conducted by experts in order to educate their employees about the new Conceptual Framework. Tertiary Institutions should prioritise the inclusion of the new Conceptual Framework into their syllabi.

We believe that African countries should place emphasis on improving their accounting infrastructure and expanding its capacity in order to promote their participation in IASB due processes. Additionally, accounting and regulatory boards in these countries should raise awareness regarding the importance of participation amongst their accounting communities. Further, tertiary institutions in these countries should create an environment of constant contact with the IASB and due process participation. They may require students to submit comment letters to the IASB as part of their course requirements.

We also believe that the IASB should explore ways of increasing African participation pro-actively. They should not rely on African countries to increase participation on their own. Arranging conferences in these countries specifically promoting participation in due processes may be an option. The IASB may also chose to form an "IASB Africa Committee". Members for this Board may be chosen from each IFRS adopting country. The objective of the "IASB Africa Committee" would be to investigate Africa-specific accounting issues and communicate these with the IASB.

If African countries increase their participation in IASB processes, it will demonstrate their commitment to quality accounting Standards. This will engender confidence in financial statements of African companies. This will lead to additional international investment, which will stimulate economic growth in Africa.

8. Further Research

Similar studies employing thematic analysis may be conducted on the other ED 2015 questions (other than Question One (b)). A study using the supporting/discussion material to the Conceptual Framework 2010 would be important in order to determine the reasoning behind the IASB's original decision to exclude the term Prudence.

Certain definitions of the Elements have been amended. An interesting study would be to test these definitions using a range of Assets, Liabilities, Income and Expenses, which were previously identified as such using the old definitions. The aim would be to determine whether these Assets, Liabilities, Income and Expenses would still be identified as such when using the new definition criteria.

References

ADHIKARI, A., BETANCOURT, L. & ALSHAMERI, F. 2014. The SEC's Proposed IFRS Roadmap: An analysis of comment letters using content analysis and textual software. *Journal of International Accounting, Auditing and Taxation,* 23**,** 98-108.

BAMBER, M. & MCMEEKING, K. 2016. An examination of international accounting standard-setting due process and the implications for legitimacy. *YBARE The British Accounting Review,* 48**,** 59-73.

BARKER, R. & TEIXEIRA, A. 2018. Gaps in the IFRS conceptual framework. *Accounting in Europe*.

BEKKE, D. 2016. *The Accounting Sector in South Africa* [Online]. Available: https://www.whoownswhom.co.za/store/info/3288?segment=The+Accounting+Sector) [Accessed].

BOTZEM, S., QUACK, S. & ZORI, S. 2017. International Accounting Standards in Africa: Selective Recursivity for the 'Happy Few'? *Global Policy,* 8**,** 553-562.

CAMFFERMAN, K. & ZEFF, S. A. 2007. *Financial reporting and global capital markets: A history of the international accounting standards committee, 1973-2000*, Oxford University Press on Demand.

CHATHAM, M. D., LARSON, R. K. & VIETZE, A. 2010. Issues affecting the development of an international accounting standard on financial instruments. *Advances in Accounting,* 26**,** 97-107.

CHEE CHIU KWOK, W. & SHARP, D. 2005. Power and international accounting standard setting: Evidence from segment reporting and intangible assets projects. *Accounting, Auditing & Accountability Journal,* 18**,** 74-99.

CHUA, W. F. & TAYLOR, S. L. 2008. The rise and rise of IFRS: An examination of IFRS diffusion. *Journal of accounting and public policy,* 27**,** 462-473.

CRAIG, R., SMIELIAUSKAS, W. & AMERNIC, J. 2017. Estimation Uncertainty and the IASB's Proposed Conceptual Framework. *Australian Accounting Review,* 27**,** 112-114.

DE ARAÚJO, V. R. B. S., GOMES, A. K. D. L., LUCENA, W. G. L. & PAULO, E. 2015. Analysis of Opinions Issued in Comment Letters on the Term Prudence. *REPeC, Brasília,* 9**,** p. 209-225.

DELOITTE TOUCHE TOHMATSU LIMITED. 2010. *Conceptual Framework Phase A – Objective and qualitative characteristics* [Online]. Available: https://www.iasplus.com/en/projects/completed/framework/framework-a [Accessed].

DELOITTE TOUCHE TOHMATSU LIMITED 2015. Need to know: IASB issues Exposure Draft for a revised Conceptual Framework *GAAP: Clear vision*

ERNST & YOUNG GLOBAL LIMITED. 2015. Applying IFRS Conceptual Framework: IASB issues the Conceptual Framework exposure draft.

FOSTER, J. M. & JOHNSON, L. T. 2001. Understanding the Issues: Why does the FASB have a Conceptual Framework. *Financial Accounting Standard Board*.

GEORGIOU, G. 2010. The IASB standard-setting process: Participation and perceptions of financial statement users. *The British Accounting Review,* 42**,** 103-118.

HOFFMAN, C. W. 2016. Revising the Conceptual Framework of the International Standards: IASB Proposals Met with Support and Skepticism. *World Journal of Business and Management,* 2.

HOLT, G. 2016. Bringing clarity to the Conceptual Framework. *Accounting and Business International Edition*.

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS 2015. Overview of IASB exposure draft on the proposed changes to the existing Conceptual Framework. *APLUS*.

IFRSS FOUNDATION 2014. Conceptual Framework Webinar.

IFRSS FOUNDATION. 2018. *Analysis of use of IFRS around the world* [Online]. Available: https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis [Accessed].

IFRSS FOUNDATION (A) 2015. Exposure Draft ED/2015/3 Conceptual Framework for Financial Reporting.

IFRSS FOUNDATION (B) 2015. Basis of Conclusions.

INTERNATIONAL ACCOUNTING STANDARDS BOARD 2010. Conceptual Framework for Financial Reporting

INTERNATIONAL ACCOUNTING STANDARDS BOARD 2015. Exposure Draft Snapshot: Conceptual Framework for Financial Reporting.

INTERNATIONAL ACCOUNTING STANDARDS BOARD. 2017. *Conceptual Framework* [Online]. Available: http://archive.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Pages/Conceptual-Framework-Summary.aspx [Accessed].

INTERNATIONAL FINANCIAL REPORTING STANDARDS FOUNDATION 2016. Due Process Handbook.

LARSON, R. K. 2007. Constituent participation and the IASB's international financial reporting interpretations committee. *Accounting in Europe,* 4**,** 207-254.

LUBBE, I., MODACK, G. & WATSON, A. 2014. *Financial accounting IFRS principles*.

O'LEARY, Z. 2014. *The Essential Guide to Doing Your Research Project*, SAGE.

PRICEWATERHOUSECOOPERS 2015. IASB exposes revised Conceptual Framework. *IFRS news,* 2015.

PRICEWATERHOUSECOOPERS 2017. IFRS adoption by country. *PricewaterhouseCoopers LLP*.

PURO, M. 1984. Audit firm lobbying before the Financial Accounting Standards Board: An empirical study. *Journal of Accounting Research***,** 624-646.

RICHARDSON, A. J. & EBERLEIN, B. 2011. Legitimating Transnational Standard-Setting: The Case of the International Accounting Standards Board. *Journal of Business Ethics,* 98**,** 217-245.

SMITH, M. 2015. *Research methods in accounting,* Los Angeles SAGE.

SOUTH AFRICAN INSTITUTE OF PROFESSIONAL ACCOUNTANTS. 2018. *About SAIPA* [Online]. Available: https://www.saipa.co.za/south-african-institute-professional-accountants/ [Accessed].

SOWDEN-SERVICE, C. & KOLITZ, D. L. 2018. *GAAP : graded questions 2018,* [Durban, South Africa], LexisNexis.

STAINBANK, L., OAKES, D. & RAZAK, M. 2017. *A student's guide to international financial reporting,* Eston, South Africa, S & O Publishing.

THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS. 2018. *Membership Statistics* [Online]. Available: http://www.saica.co.za/Members/AboutMembers/MembershipStatistics/tabid/502/language/en-ZA/Default.aspx [Accessed].

WEYGANDT, J. J., KIESO, D. E. & WARFIELD, T. D. 2016. Intermediate Accounting, Binder Ready Version. John Wiley & Sons.

Appendix A

Question Number	Question
1 a	Do you support the proposals 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?
1 b	Do you support the proposals to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality?
1 c	Do you support the proposals to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form?
1 d	Do you support the proposals to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant?
1 e	Do you support the proposals to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information?
2 a	Do you agree with the proposed description of a reporting entity in paragraphs 3.11-3.12?
2 b	Do you agree with the discussion of the boundary of a reporting entity in paragraphs 3.13-3.25?
3 a	Do you agree with the proposed definitions of an asset, and the related definition of an economic resource?
3 b	Do you agree with the proposed definitions of a liability?
3 c	Do you agree with the proposed definitions of equity?
3 d	Do you agree with the proposed definitions of income?
3 e	Do you agree with the proposed definitions of expenses?
4	Do you agree with the proposed description of a present obligation and the proposed guidance to support the description?
5	Do you have any comments on the proposed guidance? Do you believe that additional guidance is needed?
6	Do you agree with the proposed approach to recognition?
7	Do you agree with the proposed discussion of derecognition?
8 a	Has the IASB correctly identified the measurement bases that should be described in the Conceptual Framework?
8 b	Has the IASB properly described the information provided by each of the measurement bases, and their advantages and disadvantages?
9	Has the IASB correctly identified the factors to consider when selecting a measurement basis?
10	Do you agree with the approach discussed in paragraphs 6.74-6.77 and BC6.68?
11	Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?
12	Do you support the proposed description of the statement of profit or loss?
13	Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income?
14	Do you agree that the Conceptual Framework should include the rebuttable presumption described above (recycling)?
15	Do you agree with the analysis in paragraphs BCE.1 - BCE.31?
16	Do you agree with the proposed approach to business activities?
17	Do you agree with the IASB's conclusions on long-term investment?
18	Do you have comments on any other aspect of the Exposure Draft?

Source: (Hoffman, 2016)

Appendix B: Node structure

Nodes
Conceptual Framework Project
African Country
Kenya
South Africa
Uganda
Zambia
Zimbabwe
Agreement Level
Agree
Disagree
Country
Australia
Austria
Belgium
Brazil
Canada
China
China (suspected)
Colombia
Denmark
Finland
France
Germany

Nodes
Hong Kong
India
Indonesia
Iran
Israel
Italy
Japan
Kenya
Korea
Latin America
Luxembourg
Malaysia
Mexico
Netherlands
New Zealand
No address
Norway
Pakistan
Philippines
Poland
Singapore
South Africa
South Korea
Spain

Nodes
Sri Lanka
Sweden
Switzerland
Thailand
Uganda
UK
US
Zambia
Zimbabwe
Not a comment Letter
Questions
1
A Stewardship
Agree
Disagree
Africa
B Prudence
Agree 1a
Disagree 1b
Asymmetric in Standards
Bias or Counterneutral
Cautious or Asymmetric Prudence
Diverse Interpretations
Judgment required

Nodes
Measurement Uncertainty sufficient
Neutrality is sufficient
Patrick Finnegan
Preparation vs standard setting
Recommendation if Reintroduced
C FR =SOF
Agree
Disagree
D MU dec REL
Agree
Disagree
E FR +Rel = FQC
Agree
Disagree
Other
10
11
12
13
14
15
16
17
18

Nodes
2
3
4
5
6
7
8
9
None
Repetition

UNIVERSITY OF
KWAZULU-NATAL
INYUVESI
YAKWAZULU-NATALI

Mr Muhammed Abdool Haq Kajee (207505100)
School Of Acc Economics&Fin
Westville

Dear Mr Muhammed Abdool Haq Kajee,

Protocol reference number: 00001725

Project title: Exploring Public Opinion on the International Accounting Standards Boards Conceptual Framework Exposure Draft 2015

Exemption from Ethics Review

In response to your application received on 30 April 2019, your school has indicated that the protocol has been granted **EXEMPTION FROM ETHICS REVIEW.**

Any alteration/s to the exempted research protocol, e.g., Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through an amendment/modification prior to its implementation. The original exemption number must be cited.

For any changes that could result in potential risk, an ethics application including the proposed amendments must be submitted to the relevant UKZN Research Ethics Committee. The original exemption number must be cited.

In case you have further queries, please quote the above reference number.

PLEASE NOTE:
Research data should be securely stored in the discipline/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study.

Yours sincerely,

Prof Josue Mbonigaba
Academic Leader Research
School Of Acc Economics&Fin