



CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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January 13, 2014

The Honorable Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: IASB Discussion Paper: *A Review of the Conceptual Framework for Financial Reporting*

Dear Chairman Hoogervorst:

The U.S. Chamber of Commerce (“Chamber”) is the world’s largest business federation, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy. To achieve these goals, the CCMC supports the creation of a single global accounting standard and has supported the improvement of standards and reduction of complexity through the convergence of U.S. Generally Accepted Accounting Principles (“US GAAP”) and International Financial Reporting Standards (“IFRS”).

The CCMC appreciates the opportunity to comment on the International Accounting Standards Board (“IASB”) Discussion Paper on *A Review of the Conceptual Framework for Financial Reporting* (the “Discussion Paper”). We understand that the IASB embarked on the Conceptual Framework project to improve financial reporting by providing the IASB with a complete and updated set of concepts to use when it develops or revises IFRS. We also understand that the Discussion Paper represents a

first step towards revising the IASB's Conceptual Framework and that the IASB will be developing an exposure draft.

The CCMC believes that these are prudent steps in the development and sustainment of a high quality global accounting system. At this stage in the process, we have some overarching comments related to convergence as well as other matters, including cost-benefit considerations, forward-looking information, other comprehensive income ("OCI"), and the use of the business model concept in financial reporting.

Convergence

The Discussion Paper describes the historical context for the project. In 2004, the IASB and the Financial Accounting Standards Board ("FASB") commenced a joint project to revise their respective conceptual frameworks. In 2010, the IASB and FASB issued two chapters of a revised conceptual framework, which focused on the objectives of general purpose financial reporting and the qualitative characteristics of useful financial information. These chapters are now part of the IASB's existing Conceptual Framework. In addition, the IASB and FASB published a discussion paper and exposure draft on the concept of a reporting entity, discussed the definitions of the elements of financial statements, and discussed and held public round-tables on measurement concepts. However, in 2010, the IASB and FASB suspended work on the joint conceptual framework in order to concentrate on more urgent projects that arose from the financial crisis.

The primary objective of the IASB's current Conceptual Framework project is to provide a basis for the IASB in setting new and revised standards. Therefore, to the extent that the IASB's and FASB's respective conceptual frameworks are not substantially similar, it will likely undercut the convergence of IFRS and U.S. GAAP. Furthermore, the Discussion Paper appears to revisit several of the areas finalized in the joint work of the IASB and FASB.

The CCMC appreciates the need for the IASB to complete its work on a revised Conceptual Framework. However, the CCMC would also like to express regret that the joint work of the IASB and FASB on a conceptual framework has not continued. As previously noted, the CCMC has been a strong supporter of the

convergence of IFRS and U.S. GAAP. This goal is best served if the conceptual frameworks of the IASB and FASB do not diverge on fundamentals.

Other Matters

The Discussion Paper provides the IASB's preliminary views on various matters including cost-benefit considerations. For example, the IASB's preliminary views on measurement include that the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.¹ Further, in the IASB's preliminary view, the Conceptual Framework should state that the IASB should not require the recognition of an asset or a liability if the IASB concludes that recognizing that asset or liability would result in information that is irrelevant, or not sufficiently relevant to justify the cost of preparing it.² The CCMC strongly supports the need for cost-benefit considerations in accounting standard-setting and appreciates that the IASB is incorporating this concept in its revised Conceptual Framework.

This is an important point since the CCMC often raises process concerns when providing comments to both the IASB and FASB. It is often difficult to understand what the benefits are to financial report users, the process used to discern those benefits and the transparency involved. Accordingly, the *benefits* of a proposal are not readily apparent and the process for how those benefits are determined is murky at best. We believe that the Conceptual Framework is the appropriate point for the IASB to develop a transparent process to better help financial statement users understand the benefits, as well as the costs, of proposals.

The IASB's existing Conceptual Framework does not provide guidance on presentation and disclosure. However, the Discussion Paper describes the guidance that could be included in a revised Conceptual Framework to assist the IASB in developing presentation and disclosure requirements in new or revised standards. The CCMC supports the notion of including presentation and disclosure guidance in a revised Conceptual Framework. In this regard, the CCMC also supports the IASB's preliminary view that forward-looking information would be included in the notes to the financial statements if it provides relevant information about existing assets and

¹ See, for example, pages 11 and 111-112 of the Discussion Paper.

² See page 69 of the Discussion Paper.

liabilities or about assets and liabilities that existed during the reporting period.³ Consistent with the IASB's preliminary views, the CCMC likewise believes that other types of forward-looking information that may provide relevant information should be presented outside the financial statements.

For example, forward-looking information could be included in management commentary if the entity prepares one,⁴ similar to Management Discussion and Analysis required for public companies in the U.S. by the Securities and Exchange Commission ("SEC"). Nonetheless, we also believe that a balance must be maintained so that forward-looking information works in parallel with and not in conflict with disclosures required through law or regulation. While relevant and appropriate forward-looking disclosures can provide financial statement users with decision-useful information, such information that conflicts with other disclosures may increase liability risk for companies ultimately harming investors.

The Discussion Paper includes a section on the presentation of OCI in the statement of comprehensive income. The Discussion Paper describes two approaches to the inclusion of items in OCI – the broad approach and the narrow approach. The CCMC supports the broad approach. Further, consistent with the IASB's preliminary view, the CCMC supports that the Conceptual Framework should permit or require at least some items of income and expense previously recognized in OCI to be recognized subsequently in the statement of profit or loss (i.e., recycling).⁵

Finally, consistent with the IASB's preliminary view that financial statements can be made more relevant if the IASB considers how an entity conducts its business activities when it develops new or revised standards,⁶ the CCMC supports the use of the business model concept in financial reporting. Differing business models create different needs for financial statement users and this should be reflected in accounting standards when appropriate.

³ See page 13 of the Discussion Paper.

⁴ See page 142 of the Discussion Paper.

⁵ See, for example, pages 13 and 180 of the Discussion Paper.

⁶ See page 14 of the Discussion Paper.

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Thank you for your consideration of these comments as the IASB revises the Conceptual Framework. We would be happy to discuss these issues with you further. The CCMC looks forward to continuing our efforts to work with the IASB to achieve our goals of robust accounting standards that reflect the economic activity of business operations in furtherance of efficient and fair global capital markets.

Sincerely,

A handwritten signature in black ink, appearing to be 'T. Quaadman', with a long, sweeping horizontal stroke extending to the right.

Tom Quaadman