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Building a Framework — FASB and IASB Provide Preliminary Views

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The FASB and IASB are seeking comments on two recently issued documents that discuss certain aspects of their joint, eight-phase project to develop an improved conceptual framework. The single conceptual framework will serve as a foundation for developing accounting standards that are based on consistent principles. The documents are available on the FASB's and IASB's Web sites. Comments are due September 29, 2008.

Exposure Draft

The Exposure Draft¹ reflects the Boards' updated views resulting from comments received on their July 2006 proposals. It consists of two chapters, the first of which describes the (1) objective of financial reporting, (2) primary user group for financial reporting, (3) types of decisions made by that group, and (4) financial information useful to that group in making those decisions.

Views expressed in Chapter 1 include the following:

- An "entity's financial reporting should be prepared from the perspective of the entity" rather than its owners or a class of owners.
- Present and potential capital providers are the primary user group for general purpose financial reporting.
- The objective of financial reporting "should be broad enough to encompass all of the decisions that equity investors, lenders, and other creditors make in their capacity as capital providers"

The second chapter describes the qualitative characteristics that make financial information useful, including relevance, faithful representation, comparability, verifiability, timeliness, and understandability. Some qualitative characteristics are described as "fundamental" while others are described as "enhancing." Fundamental qualitative characteristics differentiate useful information from information that is not useful or is misleading, whereas enhancing qualitative characteristics differentiate more useful information from less useful information. Chapter 2 also discusses the "pervasive constraints" related to providing financial reporting information.

Views expressed in Chapter 2 include the following:

- Relevance and faithful representation both constitute fundamental qualitative characteristics.

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¹ FASB Exposure Draft, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*; IASB Exposure Draft, *An Improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting; Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*. (Although their titles differ, both the FASB's and IASB's documents contain the same content.)

- Comparability, verifiability, timeliness, and understandability are enhancing qualitative characteristics.
- Materiality and cost are pervasive constraints.

Preliminary Views Document

The Preliminary Views document² outlines the Boards' perspectives on including a "reporting entity concept" and related issues in the conceptual framework. The reporting entity concept (which affects some important aspects of financial reporting) has not been specifically addressed in the Boards' existing frameworks.

Views expressed in the document include the following:

- A reporting entity is "a circumscribed area of business activity of interest to present and potential equity investors, lenders, and other capital providers."
- Control is the basis for determining the composition of a group reporting entity, although in some circumstances the common control model may provide useful information.
- Consolidated financial statements should be prepared from the perspective of the group reporting entity, although including information that is directed to the needs of a particular group is not precluded.

The Preliminary Views document outlines the Boards' perspectives on including a "reporting entity concept" and related issues in the conceptual framework.

² FASB Preliminary Views, *Conceptual Framework for Financial Reporting: The Reporting Entity*; IASB Discussion Paper, *Preliminary Views on an Improved Conceptual Framework for Financial Reporting — The Reporting Entity*. (Although their titles differ, both the FASB's and IASB's documents contain the same content.)

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