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## **PRO-ACTIVE ACCOUNTING ACTIVITIES IN EUROPE PAAinE**

# **STEWARDSHIP/ACCOUNTABILITY AS AN OBJECTIVE OF FINANCIAL REPORTING**

### **A comment on the IASB/FASB Conceptual Framework Project**

**JUNE 2007**

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*The paper has been posted on the websites of the issuers and also the websites of the Dutch standard-setter (Raad voor de Jaarverslaggeving), the French standard-setter (Conseil national de la Comptabilité), and the Swedish standard-setter (Rådet för finansiell rapportering).*

## **About the PAAinE**

EFRAG and the European National Standard Setters have agreed to pool some of their resources and work together more closely so that Europe as a whole can participate more effectively in the global accounting debate. It was agreed that this initiative should in the beginning concentrate on pro-active work. The objective of the initiative is to stimulate debate on important items on the IASB agenda at an early stage in the standard-setting process before the IASB formally issues its proposals. The initiative has the joint ambitions of representing a European point of view and exercising greater influence on the standard-setting process. This initiative is known as the 'Proactive Accounting Activities in Europe' (or PAAinE) initiative.

Work carried out under the PAAinE initiative can take a number of different forms and the full objectives of the initiative are:

- to stimulate, carry out and manage pro-active development activities designed to encourage the debate in Europe on accounting matters and to enhance the quality of the pro-active input to the IASB;
- to co-ordinate and resource monitoring work of IASB and FASB projects; and
- to try to ensure, as far as is practicable, that the messages Europe gives the IASB are consistent.

A further description of the PAAinE initiative is available on the EFRAG website ([www.efrag.org](http://www.efrag.org)).

# Stewardship/accountability as an objective of financial reporting: A comment on the IASB/FASB conceptual framework project

## 1 Executive summary

- 1.1 The IASB and FASB proposed in their Discussion Paper (DP) *Preliminary Views on an improved Conceptual Framework for Financial Reporting* that the converged framework should specify only one objective of financial reporting, that of providing information that is useful to users in making investment, credit and similar resource allocation decisions ('the resource allocation decision-usefulness objective'). The DP argued that this objective "encompasses providing information useful in assessing management's stewardship" ('the stewardship objective').
- 1.2 Of the comment letters the IASB and FASB received on the DP 78 per cent of respondents who referred to stewardship/accountability as an issue were of the view that it should be a separate objective of financial reporting in the converged framework.
- 1.3 However, it has been suggested that the respondents have different interpretations of the term 'stewardship'; and that if there was more of a consensus the respondents' views on stewardship would carry more weight.
- 1.4 It has also been suggested that the implications of keeping stewardship as a separate objective of financial reporting are not obvious and that some examples of its impact on financial reporting are required to demonstrate the point.
- 1.5 This paper has been prepared following a detailed review of the comment letters received by the IASB and FASB. It demonstrates that:
  - there is a broad consensus amongst the majority of the respondents that the stewardship/ accountability objective should be a separate objective of financial reporting;
  - stewardship/accountability is linked to agency theory and is a broader notion than resource allocation as it focuses on both past performance and how the entity is positioned for the future. It should therefore be retained as a separate objective of financial reporting to ensure that

there is appropriate emphasis on company performance as a whole and not just on potential future cash flows; and

- stewardship/accountability has implications for financial reporting which can be demonstrated by way of examples.

## **2 Introduction and background**

- 2.1 This paper has been prepared as a comment on the first Preliminary Views Discussion Paper (DP) issued by the International Accounting Standards Board (IASB) in July 2006 as part of its joint project with the US Financial Accounting Standards Board (FASB) to develop a common conceptual framework that both Boards can use in developing new and revised accounting standards.
- 2.2 In the DP, the IASB and FASB proposed that the converged framework should specify only one objective of financial reporting<sup>1</sup>, that is being the provision of information that is useful to users in making investment, credit and similar resource allocation decisions ('the resource allocation decision-usefulness objective'). The DP argued that this objective "encompasses providing information useful in assessing management's stewardship" ('the stewardship objective'). Two IASB Board members disagreed with this and argued in the Alternative View in the DP that stewardship should be identified as a separate objective.
- 2.3 The IASB and FASB received 179 responses to its DP. 128 of the responses commented on the DP's treatment of stewardship or accountability. The IASB noted that, of those respondents that referred to stewardship, a very large majority supported the view that it should be an objective of financial reporting in the converged framework.
- 2.4 A number of respondents noted that shareholders, in their capacity as owners of the business, make decisions other than to buy, sell or hold. The other decisions include a consideration of whether they, as owners of the business, need to intervene in its management. The shareholders look

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<sup>1</sup> Although the DP did not define the boundaries of financial reporting this document assumes that 'financial reporting' incorporates financial statements and management commentary provided in the annual and interim financial reports.

to financial reporting to access information relating to management's stewardship of the business. The ASB response (CL160)<sup>2</sup> stated that "In not having stewardship as an objective, there is a danger in the future that information useful for stewardship purposes, for example in an area such as related party disclosures, may not be included in financial statements on the grounds that it is not thought to be 'decision-useful' for resource allocation purposes."

2.5 Some commentators have suggested that there are a number of different interpretations of the term stewardship in the comment letters, inferring that if there were a consensus the respondents' views on stewardship would carry more weight. It has also been suggested that the implications of keeping stewardship as a separate objective of financial reporting are not obvious. This view has generally been followed by a request that constituents provide examples of areas in financial reporting that would be different if stewardship was identified as a separate objective.

2.6 This paper addresses the following in detail:

- common themes in the comment letters on stewardship (section 3);
- the meaning of 'stewardship'/'accountability' (section 4);
- whether it matters if the label is stewardship /accountability (section 5); and
- the implications of a separate stewardship/accountability objective on financial reporting (section 6).

### **3 Common themes in the comment letters on stewardship**

3.1 In preparing this paper we carried out a detailed review of the comment letters received by the IASB and FASB on the DP. The common themes in the comment letters on the stewardship objective are drawn out in this section. To summarise, most respondents that commented on stewardship consider that the stewardship objective is about assessing management's competence and integrity including the success of their strategy in

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<sup>2</sup> References to comment letters are denoted as CLxx. The comment letter numbers are those allocated to them in the list of letters on the project page on the IASB's website ([www.iasb.org.uk](http://www.iasb.org.uk)).

managing the business. They state that one objective of financial reporting should be to serve as a type of dialogue between management and shareholders, providing shareholders with the information they need to make decisions, as owners of the business, including: whether to reappoint or replace management; assessing the adequacy of management compensation; and considering management's proposals about potential strategy changes as well as the success of past strategies. They argued that an assessment of stewardship was originally the primary objective of financial reporting under agency theory and is just as relevant today.

3.2 Of the respondents who provided views on stewardship, our analysis is that:

- (a) 78 percent of respondents supported the Alternative View in the DP. Many of these respondents also provided further views on what stewardship meant to them. These views include: a link with providing an account of past transactions and events as well as the current financial position of the business; the idea that "stewardship is governance" in many jurisdictions; and the notion that stewardship meant an assessment of management over and above related party issues;
- (b) 12 per cent considered stewardship to be important but felt that it was already incorporated in resource allocation decision-usefulness. These constituents suggested that some clarification of this in the DP would address the concerns raised on omitting stewardship; and
- (c) 10 per cent provided unqualified support for the majority view in the DP on stewardship i.e. the stewardship objective is encompassed within the resource allocation decision-usefulness objective.

*Views in favour of the stewardship objective*

3.3 Most academics and small investors viewed stewardship as being about governance. Large investors considered the stewardship objective involves an assessment of management that goes over and above a review of related party issues.

3.4 Most users appeared to be in favour of specifying stewardship as a separate objective of financial reporting. The users' view was articulated by Hermes (CL 87) who viewed stewardship as requiring "considerations

of the potential returns from a reshaping of the business and from its being run more effectively. It requires backward-looking information to highlight the performance (and underperformance) of the investment history of current management. Cashflows may be very different under different management, and shareholders need the tools to enable them to analyse this possibility.” It shows that, contrary to the assertion made in the DP, users are looking for more than a projection of the future cash flows an entity can generate.

- 3.5 However, more surprisingly, most of the preparers who provided further views on their understanding of stewardship made a link between providing an account of past transactions and the current financial position. For example, the Hundred Group (CL 126) stated that they will continue to focus on management’s performance as it “is a powerful indicator of their ability in the future to generate net cash inflows.” Others like HSBC (CL 141) stated that “financial statements need to address stewardship in its broader context, including disclosure about the quality and extent of risk management...and the provision of reliable and objective information about past transactions.” Dansk Industri (CL 136) made the link with the initial decision to invest in the company by stating that “When investing in a company you do not simply buy some assets and liabilities. You essentially trust the intentions of the company, i.e. the management and the way they intend to steward the capital entrusted to them. Otherwise, the investor would have bought other assets or shares.”
- 3.6 It is obvious from the preparers’ comments that management is keen to communicate to the investors by means of financial reporting.<sup>3</sup> For them it is the means by which they make the agency relationship work and ensure ongoing communication with the investors in the company. GAAP provides a language for communication with investors that is mutually understood and its use in producing financial reports means that the information provided therein is unambiguous and has credibility as well as being seen as independently verified during the audit process.
- 3.7 A small minority of respondents were also of the view that financial reporting designed to meet a stewardship objective would need to adopt

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<sup>3</sup> This should be unsurprising as the costs of preparing financial statements have long been identified as an example of the ‘bonding costs’ that management are willing to bear in order to make the agency relationship work. See Jensen and Meckling (1976) *Theory of the firm: managerial behaviour, agency costs, and ownership structure*: Journal of Financial Economics 3, no 4 (October 1976), pp 305-360



the historical cost measurement basis in most instances. However, this view was not shared by the majority of respondents and therefore is not explored further in this paper.

*Views against the stewardship objective*

3.8 Although most users supported the Alternative View in the DP, a notable exception was the CFA Institute (CL 174), who argued that “we believe that the concept of stewardship is embodied in and is an essential part of decision-useful information”.<sup>4</sup>

3.9 They went on to note that:

“Those that argue that decision-useful information would exclude information about managers’ stewardship are defining what is considered decision-useful too narrowly... we believe that making a distinction between the two objectives would risk separating the company’s performance from that of the company’s managers when they are inseparable. By elevating stewardship to a secondary objective, it could lead to a de-emphasis on information regarding the entity’s performance which would be unacceptable in our view.”

3.10 However, this argument – that having a separate stewardship objective would result in less emphasis being given to information on the company’s performance – is the opposite of the view expressed by users in favour of the stewardship objective. These users argue that management have a major role in the company’s performance, therefore, an assessment of how they have discharged their stewardship responsibilities provides key information on potential future performance and whether the management should be replaced.

3.11 The other point made by the CFA is that management performance is inseparable from company performance. However, those in favour of a separate stewardship objective note that the contention that a company's performance is inseparable from management's performance can be challenged in some circumstances. An example provided is the impact on a company's performance by a change in the discount rates applied to

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<sup>4</sup> It is not clear whether the CFA institute’s references to decision-useful information are intended to be references to resource allocation decision-useful information or something wider.

pension liabilities, which is independent of management's performance but has a big impact on the company's performance.

#### **4 What is stewardship/ accountability?**

4.1 Few respondents actually defined stewardship or accountability. However, all those who did linked stewardship, directly or indirectly, to agency theory.<sup>5</sup>

4.2 The current IASB Framework makes similar inferences when discussing stewardship or accountability. Paragraph 14 of the Framework notes:

“Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management.”

4.3 The stewardship objective has been characterised as being about information that provides a foundation for a constructive dialogue between management and investors.<sup>6</sup> This is deemed to be a necessary response to the development of a modern company and a fundamental building block of corporate governance. It is also suggested that, whilst this dialogue takes place in numerous ways and in various media, GAAP plays a vital role in shaping this dialogue.

4.4 Stewardship is inherently linked to agency theory, as noted by the respondents. If owners assign stewardship of their company to

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<sup>5</sup> The main focus of agency theory is the conflict that arises when ownership is different from management. Agency Theory is concerned with resolving two problems that can occur in an agency relationship. The first problem arises when (a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principle to verify what the agent is actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately. The second problem is that of risk sharing when the principal and agent have different attitudes towards risk and therefore prefer different action. Source: Eisenhardt, M.K. (1989). Agency Theory: An assessment and review. *Academy of Management Review*, 14(1), 57.

<sup>6</sup> Lennard (2006) ‘Stewardship and the objectives of financial statements’, a paper submitted with the response of the UK Accounting Standards Board (ASB) to the DP (CL160)

management they wish to have the ability to oversee management behaviour to ensure that:

- it is aligned to the owners' objectives;
- management are devising strategies aimed at making the best use of company assets; and
- no misappropriation of the company assets takes place.

The owners attempt to ensure alignment to their objectives by monitoring the company against some criteria e.g. at its simplest the increase in profits and net assets over the year. However, they also need information that enables them to review the company's performance in light of the risks management took in order to obtain the results and to assist them in making decisions about the future direction of the business.

4.5 Company law in many jurisdictions also interprets what is now commonly known as agency theory in this way. Stewardship was originally the primary objective of financial reporting which is why company law initially sought to ensure that management provide an account of their performance over a given period and show how they have utilised the resources entrusted to them by the owners. It was only after the development of capital markets that a further focus for financial reporting developed i.e. on cash flow generation that would assist in buy, sell or hold decisions (the main focus of the resource allocation decision-usefulness objective as described in the DP).<sup>7</sup>

4.6 A number of the users also identified the agency theory view as one of the main functions they see for financial reporting. Fidelity International (CL47) noted that the objective of financial reporting was to "provide information that is useful to shareholders in making decisions, including whether to buy, sell, hold or intervene in the management of the business."

4.7 For many investors in unlisted companies, selling the shares in a readily available, liquid market is not an option (due to lack of capital markets or otherwise). The only alternatives available to such investors are intervention or removal of management. As a result the main objective of

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<sup>7</sup> This is not true for all jurisdictions. In the US, federal law focuses on capital market requirements.

financial reporting for these investors is stewardship. Such investors, whether private equity or otherwise, are interested in: how management has performed in the past so they can gauge their likely performance in the future; being able to gauge the extent to which transactions similar to those already undertaken might recur in the future; and how the management performance and transactions undertaken, including related party transactions, might affect the entity's performance.

- 4.8 A majority of constituents consider stewardship a separate objective. This view was articulated by BDO in their response to the DP (CL107), "We believe there are naturally two objectives of financial reporting, based on at least two discrete decisions taken by investors... an investor would be likely first to assess how the entity has performed in a given period, and secondly to make a judgement about how it is likely to perform in the future (so the investor can make resource allocation decisions). We believe that the first assessment an investor makes...is essentially a view on stewardship and as such this should have equal prominence with the resource allocation decisions."
- 4.9 To summarise therefore, the stewardship objective that financial reporting has (and has had for many years) is broader than the resource allocation decision usefulness objective described in the IASB Discussion Paper. That stewardship objective is about providing information about the past (including, for example, the transactions entered into, the decisions taken and the policies adopted) at a level of detail and in a way that enables the entity's past performance to be assessed in its own right, rather than just as part of an assessment about likely future performance. And it is about providing information about how the entity has been positioned for the future.

## **5 Does it matter if the label is stewardship or accountability?**

- 5.1 As mentioned in section 2 above, some commentators have suggested that there are a number of different interpretations of the term stewardship in the comment letters. One reason for this view may be that respondents appear to use the terms 'stewardship' and 'accountability' interchangeably in the comment letters.

- 5.2 Subsequent to the publication of the comment letters some constituents have argued that the terms are not interchangeable. To these constituents stewardship embodies far more than accountability, most obviously the concept of “responsibility for” which, in their view, is broader than “accountable to”. They also note that stewardship encompasses the idea that management should be striving to act in the best interests of shareholders, in light of current circumstances and those that may prevail in the future. By contrast, for these constituents accountability appears to be a more backward looking and narrower concept than stewardship.
- 5.3 However, it is clear from the review of comment letters that most respondents appear to treat the two terms as interchangeable. A similar approach is taken by the current IASB Framework which also refers to the two interchangeably (paragraph 14 of the IASB’s Framework).
- 5.4 Some constituents that have addressed this issue suggest replacing the term ‘stewardship’ with ‘accountability’ because they believe that ‘accountability’ is the true reason for producing the financial reports – i.e. to provide an account to the owners – and some consider the term ‘stewardship’ old fashioned.<sup>8</sup> Grant Thornton (CL 79) note in their letter that, “... In our view ‘accountability’ expresses the desired concept better than stewardship and the concept of accountability should be retained within the objective of financial reporting.” It may also be argued that stewardship is not fully understood in countries where the concept is not embedded into the local company law.
- 5.5 On balance, it may make sense to replace the term ‘stewardship’ with ‘accountability’ which will help take away the connotations that appear to be attached to ‘stewardship’. Using the term ‘accountability’ in the Framework may be preferable as it is more direct and easier to understand for those members who are only able to view ‘stewardship’ as providing information on corporate governance issues. An added benefit of this approach may be that the concept is easily translated to other languages, an issue that has been an ongoing concern at the IASB.

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<sup>8</sup> The Chairman of FASB Robert Herz said at the Institute of Chartered Accountants of Scotland’s New York Conference in April 2007 that he wanted people to stop talking about ‘stewardship’ and instead talk about ‘accountability’ as “it sounds less Dickensian”.

## **6 What are the implications of a separate accountability objective on financial reporting?**

- 6.1 It has been suggested that it would be useful if examples could be given demonstrating the implications for financial reporting of omitting stewardship/accountability as a separate objective. This section provides such examples. It is clear from the examples discussed below that stewardship/accountability has implications for recognition, measurement and presentation issues. Implications of stewardship/accountability, therefore, cannot be discussed without “peeking ahead” to later phases of the conceptual framework project and this should be considered by both the Boards when considering further revisions of the conceptual framework.
- 6.2 As noted above stewardship/accountability has implications for recognition, measurement and presentation and these examples provide, therefore, only some initial thinking on the issue and do not represent definitive answers to accounting issues. They have been provided as illustrations of the shift in focus arising from the omission of the stewardship objective from the framework.

### *Examples*

- *Capitalisation of acquisition costs*, for example in a business combination, may be required under stewardship. In the business combination 2 exposure draft<sup>9</sup>, it was proposed these would be expensed since acquisitions would be booked initially at fair value of the acquired business. This has been interpreted as a resource allocation approach. Under a stewardship approach, users would hold management accountable for all costs associated with an acquisition, in the year of acquisition and in future years, wishing to see a return on total cost. Hence, in the years subsequent to the acquisition, it is important to investors to know both the aggregate cost of an acquisition, and the acquired asset's present value in use to show whether it has appreciated and by how much. An impairment (value in use less than aggregate cost) provides information about management's decision in making and managing the acquisition;

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<sup>9</sup> IASB's exposure draft of proposed amendments to IFRS 3 *Business Combinations* issued June 2005.

- *Employee share options* similarly may be treated differently under the two objectives. If an entity made a substantial grant of cash settled share options to employees during the period, as part of a bonus arrangement for example, information about the grant and the options might not be particularly useful for assessing the entity's future cash flows as they remain unchanged. However, that information would warrant disclosure in discharging management's accountability towards the shareholders as the cash flows available to the shareholders will be affected.
- *Asset valuations:* Stewardship similarly has relevance for asset valuations. In certain circumstances stewardship as an objective would dictate that entities provide current entity-specific valuation for operational assets. For example the potential contribution to productivity a company is able to derive from a custom made machine may best be conveyed by measures such as value-in-use and current replacement cost. By contrast, resource allocation might be seen to require a single approach to valuation e.g. market-based exit value (which may be a scrap value). This approach assumes that investors are only interested in how market participants would value such a machine rather than the potential benefits the company derives from the use of the asset in its day-to-day business.<sup>10</sup> However, this does not mean that exit price fair value is not the most appropriate basis of measurement for certain types of assets.
- The accounting treatment for *Non-current assets held for sale* is set out in IFRS 5 'Non-current assets held for sale and discontinued operations'. IFRS 5 permits non-current assets held for sale to be classified as such as long as there is "an active programme to locate a buyer" and management is "committed to a plan to sell the asset". Stewardship may well look to legal or constructive commitment as minimum criteria for such classification.
- Stewardship as a separate objective would require that *discontinued operations* are presented gross on the face of the primary statements rather than as a net figure in a single line item, as would be the case if resource allocation was the sole objective. Relegating the gross

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<sup>10</sup> It is sometimes suggested that the scrap valuation can be avoided by recourse to a hypothetical market participant, but the relevance of this is obscure, especially where it is known that there is no such market participant.

information on discontinued operations to the notes implies that the decision to discontinue relates to the past performance of the operation and is no longer relevant. This is consistent with the resource allocation approach which focuses on an assessment of future cash flows of the company and so disregards any information on the discontinued operations other than the net cash inflow or outflow expected as a result of the disposal. However, from a stewardship point of view information on the discontinued operations on the face of the primary statement illustrates the financial consequences of business decisions made by management and, therefore, is important in the investors' assessment of whether to continue to entrust management with the running of the company.

- Another consequence arising from omitting stewardship/accountability would be that the resulting financial reports would not meet all the *needs of investors of private entities and the stakeholders of not-for-profit entities*. Both of these types of entities prepare financial reports with a stewardship focus, because usually their constituents do not have the option to make the buy, sell and hold decisions resulting from the resource allocation objective. The decision they need information on is whether to intervene in the management of the business, which is only provided if the stewardship objective is retained in the framework.

6.3 A number of constituents have also noted that performance reporting is more directly linked to stewardship than resource allocation. Therefore, omitting stewardship could lead to major parts of performance reporting currently included in IFRS being removed. This issue was identified by a number of IASB constituents and some of these comments are included in the appendix to this paper.

6.4 Other examples noted in IASB constituents' comment letters are included in the appendix to this paper.



## **7 Conclusion**

7.1 In conclusion this paper makes the case that:

- There is a broad consensus amongst the majority of IASB and FASB respondents who commented on the stewardship/ accountability objective that it should a separate objective of financial reporting;
- Stewardship/accountability is inherently linked to agency theory and is a broader notion than resource allocation as it focuses on both past performance and how the entity is positioned for the future. It should therefore be retained as an objective of financial reporting to ensure that there is appropriate emphasis on company performance as a whole and not just on potential future cash flow;
- Stewardship/accountability has implications for financial reporting which can be demonstrated by way of the examples presented in section 6.

## **Appendix**

### **The implications of omitting stewardship/accountability as an objective of financial reporting: examples from comment letters to the IASB**

A1 A large number of constituents made the point that omitting stewardship would lead to undue emphasis on the ability of the entity to generate cash flows in the future. This was characterised by RWE (CL 75) as, “the emphasis on the ability to generate future cash flows together with the omission of stewardship indeed may not directly change the mandatory rules of financial reporting but subliminally cause a shift of the focus of financial reporting from the conventional presentation of past transactions to forecast of future cash flows.” Paul Polinski (CL 95) further elaborated that omitting stewardship on the grounds that having two key objectives would render the framework (and any standards derived from it) unduly abstract or vague is a misconception. Instead, he notes that, “it would likely narrow what is considered “general purpose financial reporting” to a single, specific purpose: the assessment of future cash flows.”

A2 The Corporate Reporting Users Forum (CRUF) (CL84) further elaborate on this by noting that “unless stewardship is retained as a separate objective, financial reporting risk becoming excessively focussed on forward-looking predictions and estimates of future cashflows. Accurate reporting of the capital invested in a business ... enables a more effective analysis of the dynamics of that business. History matters, because it allows users to gain a closer understanding of how an entity generates returns, and therefore provides users with key tools in assessing what future returns may be.”

A3 Another linked consequence was noted by the South African Institute of Chartered Accountants (CL 28) who noted that “An example ... that may not be required if the stewardship objective is not emphasised, is a once-off loss as a result of past negligence of management, where steps have been taken to ensure that that type of loss could not recur. A focus on forward looking information would make that information irrelevant, whereas that is extremely relevant for some users.”

A4 Fidelity International (CL47) also noted that “Furthermore indications of poor stewardship regarding these [related party] transactions are often indicative of other problems within an organisation, whether these specific transactions are material to the entity or not.”

A5 New South Wales Treasury in their response (CL14) identified a list of potentially negative consequences of omitting stewardship as an objective of financial reporting. These include:

- “Weakening of Shareholder rights.
- Earnings or valuation focus for predictive purposes, rather than a more rounded or balanced view based on both income and the balance sheet.
- Greater rules based approach rather than substance over form.
- Greater focus on secondary market users, who are one step removed from the process.
- Greater possibility that real and consequential loss will not be identified.
- Disconnect between the objectives of the company and the objectives of financial reporting.
- GAAP will lag business failure rather than pre-empting it.
- Objectives of financial reporting may be potentially inconsistent with the scope of financial reporting.”

A6 Although New South Wales Treasury does not fully elaborate on how these might occur most were also mentioned by other respondents.