5 July 2013

Our ref: ICAEW Rep 96/13

Ms Françoise Flores
Chairman
EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

By email to commentletters@efrag.org

Dear Françoise

Getting a Better Framework: Prudence

ICAEW is pleased to respond to your request for comments on the *Getting a Better Framework* bulletin: *Prudence*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REP 96/13

ICAEW REPRESENTATION

GETTING A BETTER FRAMEWORK: PRUDENCE; RELIABILITY OF FINANCIAL INFORMATION; UNCERTAINTY

Memorandum of comment submitted in June 2013 by ICAEW, in response to the European Financial Reporting Advisory Group *Getting a Better Framework* bulletin: *Prudence* published in April 2013

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the *Getting a Better Framework* bulletin *Prudence*, published by the European Financial Reporting Advisory Group (EFRAG) in April 2013, copies of which are available from this link.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The Faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

MAJOR POINTS

The *Getting a Better Framework* initiative

5. We welcome EFRAG's initiative in setting up the *Getting a Better Framework* project. As the IASB is preparing proposals for a revised conceptual framework, this is a good time to promote discussion on these issues. We note that the key conclusions set out in the bulletins are expressed as tentative and, as the IASB has not yet published its proposals, we believe that this is the right approach at this stage. For the same reason, our own comments on the bulletins should be seen as provisional views, pending the IASB's publication of its proposals, at which point we will be revisiting the issues discussed in the bulletins.

Prudence

6. We support the tentative view expressed in the *Prudence* bulletin that the role of prudence in financial reporting should be explicitly recognised in the conceptual framework. We believe that, whatever it says in the conceptual framework, standard setters consider prudence as an important factor in writing accounting standards, as do preparers and auditors of accounts in applying them in practice. While we appreciate that there are concerns that explicit recognition of the role of prudence could have unfortunate effects on the neutrality of financial reporting information, we believe that it should be possible to refer to it in the conceptual framework in a way that would not be a licence for 'cookie-jar accounting'. The description of prudence in the old conceptual framework seems to us to be satisfactory, so it may be sensible simply to revert to that.

RESPONSES TO SPECIFIC QUESTIONS

Question (i)

Is there a role for prudence in the development of accounting standards? If so, should it (i) focus on recognition and measurement criteria, and the timing of recognition of gains and losses; or (ii) be described as the general exercise of caution?

7. We believe that prudence, quite rightly, already plays a role in the development of accounting standards, even though it is not mentioned in the current version of the conceptual framework. Recent debates on how to measure impairments of financial assets and on the need to avoid recognising day-one gains either on insurance contracts or in revenue recognition more generally illustrate this.

8. We do not think that there needs to be a single focus on either recognition and measurement criteria or the general exercise of caution. The first is primarily appropriate for standard setters, the second, for those preparing (or auditing) accounts; both deserve a mention in the conceptual framework.

Question (ii)

Does the current Framework adequately reflect the essence of prudence, or do you share the tentative view that its role should be explicitly considered? If so, how would you characterise the level of caution you believe should be observed? References to various views in the bulletin would be helpful.

9. We do not think that the current conceptual framework adequately reflects the need for prudence in financial reporting, and we share EFRAG's tentative view that it should be explicitly recognised. It may be difficult to find a single 'level' that is appropriate for all the occasions on which prudence should be exercised. However, as noted above, the description of prudence in the old conceptual framework seems to us to be satisfactory.

Question (iii)

Are there requirements in current IFRS not mentioned in this Bulletin which fail to reflect prudence? Are there requirements in current IFRS which in your view are overly prudent?

10. We do not agree that current IFRS fails to reflect prudence, although we support the IASB's efforts to adopt a more prudent approach to the measurement of impairments of financial assets. We cannot think of any requirements in IFRS that are overly prudent, but have not attempted an exhaustive survey.

Question (iv)

Do you have any other comments on this bulletin?

11. The bulletin refers several times to 'realised' gains or profits. 'Realised' is capable of being interpreted in different ways, and so it may be best to avoid it. If EFRAG has in mind the concept that profits should only be recognised when there is a transaction, it may be clearer to express the points in these terms.

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