November 25, 2015

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH United Kingdom

By e-mail: commentletters@ifrs.org

Re: Exposure Draft, *Conceptual Framework for Financial Reporting*, May 2015

(Exposure Draft ED/2015/3)

Dear Mr. Hoogervorst:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's International Accounting and Auditing Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Salvatore A. Collemi, Chair of the International Accounting and Auditing Committee at (212) 375-6552, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

N Y S S C P A
N Y S S C P A

Joseph M. Falbo, Jr.
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

IASB EXPOSURE DRAFT, *CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING*, MAY 2015

(EXPOSURE DRAFT ED/2015/3)

November 25, 2015

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New York State Society of Certified Public Accountants

Comments on

IASB Exposure Draft, *Conceptual Framework for Financial Reporting*, May 2015

(Exposure Draft ED/2015/3)

General Comment

The New York State Society of Certified Public Accountants (NYSSCPA) appreciates the opportunity to comment on the International Accounting Standards Board (IASB), Exposure Draft, *Conceptual Framework for Financial Reporting*, May 2015 (Exposure Draft).
As a state society of certified public accountants, we do not represent one public accounting firm. Our response was prepared by members of our International Accounting and Auditing Committee and represents the views of our membership, who work at public accounting firms and private industry, based on feedback from the sponsoring committee members and our general sense of our members' experiences. Accordingly, our responses are founded by these varied observations, grounded in our technical knowledge and based on extensive experiences in both public accounting and private sector industry.

Overall, we support those elements of the Exposure Draft that propose clarification of the existing Conceptual Framework in order to enhance consistency of current practice. We believe that any changes to the Conceptual Framework should narrow the expectation gap between the preparers of financial reporting information and the users of financial statements.

While we are supportive of the direction of the Exposure Draft, we note the numerous issues addressed, including the definition of assets and liabilities, measurement, recognition and de-recognition issues, and presentation and disclosure, could each merit a deep and broad analysis individually. For example, fair value measurements continue to be a challenging issue in application and, furthermore, the implications with regard to the proposed change on executory contracts are unclear. We therefore encourage the Board to assess the merits of the proposed changes on an individual topic basis as opposed to a comprehensive change of the Conceptual Framework to ensure that critical issues are not missed or that the proposed changes do not have unintended consequences.

In addition, we are also concerned about the further divergence of the work performed by the Financial Accounting Standards Board (FASB) and IASB as each works on their individual Conceptual Framework projects. We would once again encourage the Boards to work together and coordinate their efforts with the goal of obtaining high-quality accounting standards that are consistently applied on a global basis.

With this context in mind, we have chosen to limit our comments to certain items which we believe are most significant: 1) the implications related to reintroduction of the explicit reference to “prudence” within the Framework language, and 2) the proposal to give more prominence to management’s stewardship. While we generally support clarifications to the Conceptual Framework, we do not believe that it is necessary to reintroduce the concept of prudence into the framework, despite the calls by various constituents of the financial preparer and user community, nor do we believe that affording more prominence to the importance of providing information to assess management’s stewardship of resources has an appropriate role within financial reporting.

We reserve the option to further discuss our views with respect to the other changes proposed in the Exposure Draft as the implications of the proposed changes become apparent.

Our responses to the specific questions posed in the Exposure Draft are set forth below and are consistent with these overarching concepts.

Specific Responses

Question 1: Do you support the proposals:

a) 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?

Response: We do not believe that the historical financial statements are the appropriate place to provide the type of information users might expect when they indicate that they believe stewardship should receive greater prominence. One might argue that, if they believe the stewardship notion should receive greater prominence in the Conceptual Framework, they would also believe that the Board should enhance their consideration of stewardship in their standard-setting deliberations.

Historical financial statements provide metrics that represent one set of inputs to analyze and assess the result of management stewardship. However, such metrics do not include information about management’s strategies and plans to mitigate the effect of identified challenges to achieving the entity’s goals or to take advantage of identified opportunities. Much of that information would be qualitative rather than quantitative. Such qualitative information was discussed by the International Integrated Reporting Council (IIRC) in their Integrated Reporting Framework. As noted in paragraph 1.1 of the 2013 Integrated Reporting Framework, the IIRC defines integrated reporting as:

“[A] concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.”

It would include:

1. Organizational overview and external environment,

2. Governance: business model,
3. Risks and opportunities,
4. Strategy and resource allocation,
5. Performance,
6. Outlook, and
7. Basis of presentation.

We believe these are the issues of interest to a user concerned about management stewardship. Obviously, the historical financial statements and related notes and disclosures only address a subset of that information.

However, if in their objectives the Board chooses to enhance the prominence of stewardship, we believe the Board must clearly explain the manner by which they believe financial information can meet that objective, whether through disclosure or by considering supplemental information. In that way, financial statement users will understand the limits of general purpose financial statement in providing such information.

b) to reintroduce the explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important to achieve neutrality)?

We support the description of neutrality under Section 2.17 as being an assessment without bias in the presentation of financial information or what some refer to as a "reasonable person" approach. Neutrality should be neither aggressively optimistic nor unduly conservative. We believe that Section 2.17 properly explains this position and that Section 2.18 is not only unnecessary but the conclusion of Section 2.18 further complicates the general interpretation of the term "prudence", generally understood as to err on the side of being conservative, and therefore is not inherently "neutral." We therefore recommend removing Section 2.18 from the Exposure Draft.

The term "prudence" should be "retired" if the Board's goal is to create a neutral depiction of financial information which is not biased either favorably or unfavorably by users of the financial information. In our opinion, the term prudence is commonly used and understood outside the field of accounting in a less precise manner which may slant the interpretation of the need to use prudence towards a more conservative point of view rather than the intended "neutral" point of view.

In addition to its common understanding, the FASB's Concepts Statement 2, paragraphs 91 to 97, use and endorse "prudence" as a mild form of conservatism. Having "prudence" in the Conceptual Framework with a distinctly different definition than the FASB Concepts will clearly confuse the issue.

It is perhaps useful, for the goal of neutrality in the context of U.S. GAAP, for the FASB to have "prudence" in its Concepts because of another definitional issue between U.S. GAAP and IFRS. U.S. GAAP, in setting the threshold for recognition of contingent losses, like IFRS, uses the term "probable." As noted elsewhere, for example in the revenue recognition standard, "probable" as used in U.S. GAAP has a similar meaning to the phrase “highly probable” under IFRS. With contingent losses recognized only when “highly probable” U.S. GAAP incorporates an anti-conservative bias. The introduction of “prudence” with its meaning of a slight bias toward conservatism in uncertain estimates may thereby be useful in U.S. GAAP in moving toward neutrality without being useful in IFRS.

Additionally, because the Board would be reintroducing prudence into the Conceptual Framework at the request of certain respondents, we believe it’s likely that the revised definition will fail to satisfy those constituents that favor the earlier definition.

Moreover, some respondents correctly point out that it is very common for management to have an optimistic bias. In addition to the pure self-interest in presenting a favorable image to capital providers, contributing factors to this bias include the following:

1) estimates are made in the context of management’s plans, which they believe to be the best plans that could be implemented in the specific circumstances, and

2) management is often made up of entrepreneurs and a certain amount of optimism is inherent in the decision to engage in entrepreneurial activities.

Rather than try to get back to neutrality by introducing “prudence” as a mild form of conservatism when dealing with uncertain estimates, as these respondents have urged, we suggest taking on the issue of management bias directly in the Conceptual Framework by including a paragraph that explicitly points out management optimism as a common phenomena against which the financial statement preparer should be on guard while emphasizing the goal of neutrality.

In conclusion, rather than reintroducing and revising the notion of prudence, we prefer the reference to faithful representation, as indicated in Section 2.19, that explains that management’s estimation should be the best attempt to assess the outcome of estimates in an unbiased manner.