Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
Der Präsident

DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

Telefon +49 (0)30 206412-13
Telefax +49 (0)30 206412-15
E-Mail wiedmann@drsc.de

Mr Stig Enevoldsen
Chairman
EFRAG Technical Expert Group

13-14 Avenue des Arts

B-1210 Brussels

Berlin, 13 March 2007

Dear Stig,

PAAinE discussion paper on the Conceptual Framework

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the PAAinE discussion paper "ELEMENTS OF THE FRAMEWORK DEBATE: THE CONCEPTUAL FRAMEWORK: Starting from the right place?"

We believe that the development of an improved Conceptual Framework is of fundamental importance to high quality International Financial Reporting Standards. Thus, we support the *initiative of the PAAinE Conceptual Framework project*. We consider stimulating the debate on the current IASB / FASB discussions highly important and encourage a well-defined European position. The discussion paper constitutes a valuable basis for this discussion.

We agree with the *focus on issues which should be researched before developing a Conceptual Framework,* and think these are consistent with the objective of the PAAinE project. The sequence in which certain topics are considered throughout the IASB / FASB project seems to be inappropriate. For example, the term "financial reporting" (i.e. the scope of the project) will be discussed as late as phase E. We think that one has to define the term "financial reporting" before discussing the objectives of financial reporting. In addition, we believe a discussion about the status of the Conceptual Framework should take place at the beginning of the project, since the content and structure of the Conceptual Framework will be influenced by its status. Consequently, we are grateful that the discussion paper stimulates timely a debate of these fundamental issues.

With respect to the *status of the Conceptual Framework for the standard setter* we agree with the tentative view of the discussion paper. The Conceptual Framework should assist the standard setter in new projects and standards and the standard setter should be required to publish new standards that are consistent with the Conceptual Framework. Only in very rare circumstances the Board should issue a new or amended standard deviating from the Conceptual Framework. In such situation, the standard setter should be obliged to justify the exception in the Basis for Conclusion of the new IFRS. In addition, the standard setter should consider a revision of the Conceptual Framework in such situations. Deliberations to change the Conceptual Framework should start immediately to ensure consistency and coherence. Therefore, simply giving a commitment to revising the Conceptual Framework later, as demanded in the discussion paper, is not sufficient in our view.

Nevertheless the Conceptual Framework should not be subject to frequent change. This points at the objective of a Conceptual Framework, being setting out concepts and principles, which are generally accepted. Furthermore, it highlights that the level of detail which is included in the Conceptual Framework and the style in which the Conceptual Framework is written has an important impact. As already illustrated in the discussion paper, many arguments against a mandatory status of the Conceptual Framework might be solved by a sufficiently low level of detail. We prefer a Conceptual Framework with mandatory status and would accept, as a consequence, a lower level of detail, i.e. the Conceptual Framework being restricted to abstract principles.

Regarding the *status of the Conceptual Framework for the preparer* we generally support the tentative view that the Conceptual Framework should not be used to override IFRSs. However, the current wording seems to allow for an override in exceptional circumstances. In our view, an override in exceptional circumstances may be justified. Furthermore, we support the view that the Conceptual Framework should be used as guidance in the absence of a specific standard or interpretation, i.e. we think that the current status in the IFRS hierarchy is appropriate.

Relating to the discussion of *general purpose financial statements,* we think that different user groups have different information needs, as the decisions these different user groups have to make are dissimilar. Consequently, the most favourable information system for one user group will not be most favourable for another user group. Nevertheless, information given under one user group's most favourable information systems contain also information meeting the information needs of other user groups too. The current Conceptual Framework acknowledges this by reference to a wide range of users and by focusing on primary users. We deem this approach appropriate.

With respect to the *definition of the primary user group* we think homogeneous information needs are of fundamental importance. Otherwise it is not possible to reach unambiguous conclusions, i.e. deduce appropriate accounting policies. We therefore prefer a definition which does not include different user groups. In our view investors and creditors are not homogeneous user groups. They have different interests and different information needs. We therefore support the reasoning along the lines of par. 10 of the current Conceptual Framework. As the investors are the user group with the most comprehensive information needs, meeting their needs, will likely satisfy the information needs of he other user groups as well.

Regarding the discussion of *entities within the scope of the Conceptual Framework* we fully agree with the tentative view of the discussion paper. IFRSs and their Conceptual Framework should focus on profit oriented entities. An inclusion of non-profit oriented entities in the scope of the Conceptual Framework may be possible after further analysis. Furthermore, we think that the Conceptual Framework should focus on listed companies. Potential differences for small and medium sized entities should be discussed further. In our view, there might be potential differences.

On the subject of the *scope of financial reporting,* we generally take the view that the Conceptual Framework may be a suitable conceptual foundation not only for financial statements, but also for other financial reporting instruments, e.g. the management commentary. However, we support the position expressed in the discussion paper that the IASB should not widen the scope without defining the term "financial reporting" at the same time. The question which information instruments are covered by "financial reporting" and whether the IASB should give guidance on those information instruments needs to be discussed further.

If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Prof. Dr. Harald Wiedmann

President