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25 September 2008

Re: Exposure Draft on *Conceptual Framework for financial reporting- Chapter 1 The Objective of Financial Reporting, and Chapter 2 Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*

Dear Sirs,

We are pleased to provide our comments on your draft comment letter to ED on *Conceptual Framework for financial reporting- Chapter 1 The Objective of Financial Reporting, and Chapter 2 Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*.

General comments

1. *Joint effort.*
OIC supports the joint efforts of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in developing a common Conceptual Framework that will establish the foundations for the development of principles based financial reporting standards.
2. *Authoritative status of the Framework.*
The issue related to the status of the Framework in the standards setting process has not been resolved (mandatory or optional) and the decision as to its status is being delayed to the future: “the boards have not reached a common conclusion on the authoritative status of the common conceptual framework (P3). However the boards have decided that the conceptual framework will not have the same status as financial reporting standards”.
We regret that no decision has been taken, but we also note a certain inconsistency with the statement made in the Preface to the ED where it is said: “to consistently achieve useful financial reporting, the body of standards taken as a whole and the application of those standards should be based on a framework that is sound, comprehensive and internally consistent”. The existing IASB Framework does not have the status of a standard, but preparers are required to consider the Framework when there are no standards dealing with certain matters. We believe that the Conceptual Framework should continue to have the same authoritative status as the existing IASB Framework.

We noted and regret that EFRAG's comment letter does not comment the issue; while we do acknowledge that the issue has been extensively commented on the EFRAG comment letter on the related Discussion Paper, we think it is necessary to reiterate that comment.

3. *Financial reporting.*

The exposure draft introduces the new concept of "financial reporting", which includes financial statements, considered a "central part of financial reporting". However, the ED does not include any comprehensive definition for such notion, nor does it identify the boundaries of financial reporting and the distinctions between financial statements and other parts of financial reporting; defining the boundaries of financial reporting "should be deferred to a later phase of the conceptual framework project". However, the ED deals with the qualitative characteristics of financial reporting. As a result, at this stage of the project it is difficult to comment on such qualitative characteristics if the nature and purpose of financial information which might be comprised in the concept of financial reporting are not identified.

In our view EFRAG's comment letter should address this issue, which we believe is a fundamental change whose effects are unknown.

Main comments included in the cover letter of EFRAG

We agree with the main comments as summarized in the cover letter.

Appendix 1

No section of the Framework should be finalized unless the implications of the proposed changes have been properly identified.

We strongly support the comments made in the draft comment letter regarding the adoption of a piecemeal basis for approving the Framework. However, while we appreciate the effort of EFRAG to make a contribution on this issue by proposing an alternative way to proceed ("finalize it on a piecemeal basis and in doing so identifies all implications of the proposed changes being made and amends the current framework for such implications at the same time identifying for each part being approved the consequential amendments"), we believe that this proposal is not practicable considering the many changes required and the risk of the likelihood that more than a single change could be needed as the deliberations continue.

The relationship between Management information and information provided in the financial statements.

We noted that EFRAG has labelled the issue "the relationship between Management information and information provided in the financial statements", while the ED in OB 8 does not make any reference to financial statements. (The reference to financial statements is also made on point 8 of Appendix 2 of EFRAG comment letter.)

We do not understand the reference to financial statements because the ED deals with financial reporting, which is a broader concept. We strongly suggest using the same terminology to avoid unnecessary efforts in interpreting the meaning of certain concepts.

We believe that there is a link between financial information which is relevant to capital providers and financial information which is relevant to the Management. We do not understand why Management should not be interested in financial information such as described in the paragraphs of ED related to decision usefulness and information about an entity's resources, claims on those resources and changes in resources and claims.

The fact stated in OB 8 that the Management is not the intended recipient of financial report should not be confused with the type of financial information that Management uses. (It is to be noted that, for certain categories of business enterprises other than listed companies or large entities, in practice there is a perfect identification between equity owners and Management; therefore, in practical terms, it is difficult to assess the differences of financial information used.)

As said above, in our view there is a link between the financial information for capital providers and that for Management, although the information provided may be not exactly the same for both categories of

users. The difference lies on the quantity or degree of financial information required by Management, which in our view is more detailed and focused in those areas which are critical for managing a business, but not on the information per se.

However, this viewpoint is partial and based only on a very preliminary thinking, since both the boundaries of financial reporting and of the content of financial reporting have not yet been defined.

Based on the foregoing we do not believe it is necessary or useful to suggest that standards should contain the reasons why information is relevant to capital providers, but not to Management.

Performance.

We agree with comments in EFRAG's Draft comment letter.

Appendix 2

We agree with comments expressed by Efrag. We wish only to present additional points which do not change the essence of those comments.

Chapter 1 Q. 2

The primary users group may change in the future as when the boundaries of financial reporting will be defined. For example, if financial reports should include information relating to the social responsibility of the entities, the primary user group might be extended to other stakeholders in addition to capital providers.

Chapter 2 Q. 1

The question is related to faithful representation as a fundamental qualitative characteristics. QC. 11 of ED states that "...some minimum level of accuracy is also necessary for an estimate to be a faithful representation of an economic phenomenon".

We are not certain what is the meaning of "accuracy" in the case of an estimate; if accuracy means precise or true, the notion cannot be referred to estimate, which probably can be better described as *reasonable*. Nevertheless, estimates need to be reliable and for this reason we support the position that reliability should be retained as a fundamental qualitative characteristic.

Yours sincerely,

Angelo Casò
(OIC Chairman)