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Organización Internacional de Comisiones de Valores
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December 12, 2008

Exposure Draft: Conceptual Framework for Financial Reporting: The Objectives of Financial Reporting and Decision-Useful Financial Reporting Information
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Exposure Draft: Conceptual Framework for Financial Reporting: The Objectives of Financial Reporting and Decision-Useful Financial Reporting Information

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board and the Financial Accounting Standards Board (the Boards) Exposure Draft: Conceptual Framework for Financial Reporting: The Objectives of Financial Reporting and Decision-Useful Financial Reporting Information (the ED).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observation: Standing Committee No. 1 is supportive of the Boards' conclusions regarding the objective of financial reporting and qualitative characteristics and constraints of decision-useful financial reporting information. However, we remain concerned about the Boards' overall approach to developing and adopting individual framework chapters. We are concerned that a piecemeal approach to developing and approving the individual chapters may jeopardize the coherent and consistent application of the Framework as a whole. Therefore, we recommend that the Boards reconsider their piecemeal approach or at least provide a greater discussion on the potential implications that each completed chapter may have on future chapters and develop a plan to amend the existing chapters expeditiously, if and when necessary.

General Observations regarding Chapter 1: The Objective of Financial Reporting: Standing Committee No. 1 is supportive of establishing sound objectives that serve as the basis for general purpose financial reporting and believe the Boards' principles described in Chapter 1 help to achieve such objectives. Accordingly, we are supportive of the principle that general purpose financial reporting should provide financial information that is

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useful to present and potential equity investors, lenders and other creditors. We also agree that financial information should be sufficiently broad to provide for all present and potential capital providers, rather than focusing on the needs of a specific group of equity investors.

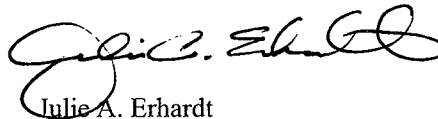
General Observations regarding Chapter 2: Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information: Standing Committee No. 1 is supportive of the Boards' description of the qualitative characteristics and constraints to financial reporting information. We believe Chapter 2 will be a useful tool to guide the Boards' development of future, and reconsideration of present, accounting standards. However, we believe Chapter 2 can be improved by including a broader discussion on how the fundamental and enhancing characteristics link to the depictions of economic phenomena as prescribed by individual standards. To develop a framework for this discussion, the Boards should test the fundamental and enhancing characteristics against a variety of reported economic phenomena. Following that test, the Boards might be able to further clarify or enhance their discussion on how to apply those characteristics to individual economic phenomena.

Other Comments: While we support the objectives as described and amplified in Chapters 1 and 2, we do have additional comments and concerns that the Boards should consider prior to finalizing the ED. Those comments, which are highlighted in the Appendix to this letter, are not intended to change the substance of the ED but rather serve as further enhancements seeking to improve its overall clarity.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,



Julie A. Erhardt
Chair

IOSCO Standing Committee No. 1

Appendix

Understanding our stated support for the principles included in Chapters 1 and 2, the following comments are provided to improve the clarity and consistency of the principles' description and applications.

Editorial Observations Regarding Chapter 1: The Objective of Financial Reporting:

1. *Paragraphs OB2 and BC1.29:* We note an apparent inconsistency between the wording of the objective described in paragraph OB2 and the Boards' summary of its conclusion in paragraph BC1.29. Paragraph BC1.29 summarizes the Boards' conclusion by stating: "...the objective of financial reporting should be broad enough to encompass **all** the decisions that are made by capital providers...." (emphasis added). In contrast, paragraph OB2 does not appear to contemplate that general purpose financial reporting will necessarily always provide information for **all** decisions made by capital providers, but certainly should be broad enough to accommodate those informational needs. We suggest that the Boards clarify the wording in OB2 in a final standard.
2. *Paragraph OB6:* The Boards' should consider including an acknowledgement that certain capital providers have obtained their claims to the entity's resources in secondary markets, nonetheless, those capital providers are considered proxies for the original investor or lender.
3. *Paragraph OB6c:* The Boards' should consider the following edit to the first sentence: "Other groups....is not primarily that of an ~~capital provider~~ equity investor or lender."
4. *Paragraph OB10:* The term "securities" as used in the first sentence should be amended to read "equity interests" because not all equity securities meet the definition of a security.
5. *Paragraph OB14:* The Boards should consider referring to their discussion in Chapter 2 regarding specific constraints to financial reporting when acknowledging that the ideal of financial reporting is unlikely to be achieved in full due to technical feasibility and costs. This paragraph may also be improved if it acknowledged the evolutionary nature of the accounting and reporting standards setting process.
6. *Paragraphs OB18-24:* This section could be improved to:
 - a. Provide a fuller discussion on how accrual accounting has evolved as well as accrual accounting's relationship with fair value accounting and
 - b. Acknowledge that in certain circumstances capital providers may be interested in more detailed information than simply the entity's ability to generate "net" cash flows. Some capital providers may derive useful information from gross flows.
7. *Paragraph OB21:* To minimize potential confusion regarding whether changes in financing activities are or are not useful to capital providers, consider including a reference to paragraph OB24 following the phrase "..., other than changes resulting from financing activities,..."
8. *Paragraph BC1.32:* The Boards should consider referring to their discussion in Chapter 2 regarding materiality as a constraint to financial reporting when acknowledging standard setting may at times deviate from notions of comparability.

Editorial Observations Regarding Chapter 2: Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information:

1. *Paragraph QC4:* The current proposed definition of the term "predictive value" appears to be circular. The Boards should consider revising the proposed definition as follows: "Information about an economic phenomenon has predictive value if it has value as an input into ~~predictive~~ processes used by capital providers to form their own expectations about the future." In this situation, the repetitive use of the term predictive does not add additional value to the overall definition and therefore appears to be redundant.

2. *Paragraph QC10:* It is not clear why the definition of neutrality includes notions of “intent” and “pre-determined results”. We do not necessarily believe all biases are intentionally formed. Therefore the definition may be improved with the following edit: “Neutrality is the absence of bias ~~intended a pre-determined~~ that may influence a result or to induce a particular behavior.”
3. *Paragraph QC 15:* We understand the Boards believe that enhancing qualitative characteristics are complementary to the fundamental characteristics and they are not intended to be considered subordinated characteristics. We anticipate that users may not necessarily draw that same conclusion, therefore this paragraph may be improved if an explicit statement was added to clarify that the enhancing characteristics are not intended to be subordinated to the fundamental characteristics but rather are qualities or individual aspects of the fundamental characteristics themselves.
4. *Paragraph QC21:* This paragraph uses two examples to amplify the term “direct verification”. The Boards should consider removing the 2nd example (“observing marketable securities and their quoted prices”) as that example appears to be directly related to the Boards’ project on measurement which is not yet complete.
5. *Paragraph QC28:* Paragraph QC28 appears to attempt to define “materiality” but it really is defining a subset of materiality. That is, the paragraph defines a “material omission or misstatement” rather than what is and is not material. The Boards should consider revising the paragraph to succinctly state that materiality involves “information that could influence the decisions that users make on the basis of an entity’s financial information.” The paragraph could next amplify that principle by describing the impact that an omission or misstatement of a material item may have on user decisions.
6. *Paragraphs BC2.22-2.24:* It is not clear to us the continuing value of the paragraphs describing why faithful representation cannot be empirically measured, particularly since other qualitative factors do not have a similar discussion. We recommend that the Boards reconsider whether these paragraphs will provide continued benefit beyond the exposure discussions and whether the paragraphs should be carried forward into the completed chapter.