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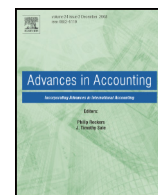

Commentary on phase A of the revised conceptual framework: Implications for global financial reporting

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ABSTRACT

To improve global financial reporting practices, the world's two major accounting standard-setting bodies—the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB)—commenced the joint development of a Conceptual Framework (CF). However, in January 2014, it was decided that IASB/FASB CF would no longer be a joint project but that each board would work on their conceptual framework independently. We critically review Phase A of the revised CF project. In particular, we identify the key concerns raised in the discussion paper and exposure draft concerning the role of stewardship as an objective of financial reporting, the range of potential users of financial reports, and the qualitative characteristics of accounting information, and we examine the extent to which these concerns have been addressed in the revised CF. We then consider the implications of not incorporating the concerns and suggestions raised in the discussion paper and exposure draft on global financial reporting. The analyses reveal that the revised CF has addressed the concerns of various stakeholders to a limited extent only, and many prominent issues have yet to be resolved. Developing a conceptually sound CF is crucial because it will influence the formulation of global accounting standards for many years to come.

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1. Introduction

The Conceptual Framework (CF) is regarded as the cornerstone of accounting. It enables the International Accounting Standards Board (IASB) to develop standards that are principles-based, internally consistent, and internationally convergent, leading to financial reporting which provides the information needed for investment, credit, and similar decisions. To improve financial reporting practices, the world's two major accounting standard setting bodies—the IASB and the U.S. Financial Accounting Standards Board (FASB)—decided in October 2004 to jointly develop a CF that builds on their existing frameworks. They called this new framework the IASB/FASB CF. However, in 2010, the IASB and the FASB postponed work on the joint conceptual framework to concentrate on other projects on their agendas, and in January 2014, it was decided that the IASB/FASB CF would no longer be a joint project but that each board would work on the conceptual framework independently (FASB Project Update, 2014).

The IASB/FASB CF project was derived from the existing frameworks of the IASB and FASB, and was expected to influence the development of accounting standards for many years to come (Whittington, 2008a). According to Bullen and Crook (2005), this revision was necessary to conform to the prerequisites of principles-based standards shared by both boards and their constituents. For the CF to be operative in an international context, it must not only be operational but must also, as explained by Jones and Wolnizer (2003, p. 384), “gain general acceptance, represent collective behavior and protect the public interest by facilitating the development of high quality standards”.

The first phase of the IASB/FASB CF (now only the IASB CF, and here onwards referred to as such), completed in September 2010, was initially considered to be undisputed since the new project reiterated most of the material in the existing IASB and FASB CF, and the assumption was that the first publication would be an exposure draft, which would be the only document for public discussion (Whittington, 2008a). However, based on the feedback of the preliminary views entitled *The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*, it was realised that because the CF was such a crucial document in the financial reporting arena, a discussion paper was needed that would allow further consultation on the subsequent exposure draft. The discussion paper was released for public comment in 2007 and was followed by the exposure draft—an improved Conceptual Framework—Chapter 1: *The Objective of Financial Reporting* and Chapter 2: *Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*, which was released for comment from May 2008 to 29, September 2008.

A contentious issue regarding the objectives of the revised CF concerns decision usefulness (see Bjerke, 2007). Core to decision

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usefulness is stewardship, coupled with accountability and the qualitative characteristics of accounting information, and the revised CF endorsed a number of major changes on the importance of stewardship and the classification of the qualitative characteristics of accounting information. The issues that seem to have attracted the most consideration are (1) having stewardship/accountability (hereinafter referred to as "stewardship") as an objective of financial reporting; (2) identifying the primary users of financial reports; and (3) the classification of qualitative characteristics as fundamental and enhancing. In completing the first phase, the IASB considered the views raised in the discussion paper and the exposure draft by the advocates of the framework and made an effort to incorporate the various opinions in revising the CF. However, even though the IASB respected the concerns raised in the discussion paper and the exposure draft, it was not able to incorporate all the suggestions when the first phase of the IASB CF was finalized.

The objective of this paper is to identify the key concerns raised in the discussion paper and exposure draft of the IASB CF and to examine the extent to which these concerns have been addressed in the revised CF. We consider the implications of not incorporating the concerns and suggestions raised in the discussion paper and exposure draft on global financial reporting. The analyses reveal that the revised CF has addressed the concerns of various stakeholders to a limited extent only and many prominent issues have yet to be resolved.

This critical review of Phase A of the CF project is crucial as the CF is expected to influence the development of accounting standards for many years to come in over 120 countries. The two boards previously also pointed out that decisions related to financial reporting objectives and user groups might have fundamental and extensive financial reporting implications (IASB/FASB, 2004, p. 4). Hence, any meaningful research which assesses the implications of the revised CF on global financial reporting will be particularly relevant. For example, the revised CF will have implications for financial reporting in Australia, one of the countries which have adopted the IASB CF.

2. Background and Motivations for IASB Conceptual Framework

The IASB and the FASB both have their own conceptual frameworks. The IASB's *Framework for the Preparation and Presentation of Financial Statements* (1989) is a single document of 110 paragraphs, while the FASB's CF dates mainly from the 1970s and consists of seven substantial concept statements, each published separately. There is great similarity between the IASB and FASB CFs. Neither framework has resolved the measurement issues and both frameworks emphasize decision usefulness, particularly to investors in capital markets, as the primary focus of general purpose financial statements (Whittington, 2008a).

The collapse of Enron and Arthur Andersen in 2001–2002 sparked a revolution in the FASB CF, particularly since this crisis identified a problem in the United States (U.S.) accounting system. In a speech in July 2002, the then President of the U.S., George W. Bush, outlined a plan to improve corporate responsibility in which he called for the reaffirmation of the basic principles and rules that make capitalism work: truthful books and honest people (Bush, 2002). President Bush assured the general public that his administration would do everything in its power to end the days of cooking the books, shading the truth, and breaking the laws (Bush, 2002).

The concept of "Generally Accepted Accounting Principles" (GAAP) had become the rules that FASB issued and, at the time of the Enron scandal, there were more than 2500 rules. The accountants, auditors, and users of accounting information had difficulty understanding and interpreting the many detailed rules, and the Enron collapse illustrated that key rules were open to manipulation. The fall of Enron resulted in the Sarbanes–Oxley Act of 2002, which is seen as the most extensive law to regulate the securities market in the U.S. since the establishment of the Securities and Exchange Commission (SEC) in 1934. The Sarbanes–Oxley Act required the SEC to undertake a study on adopting a principles-based approach to accounting regulation. Based on the investigation, the final report called for an improved and consistently applied CF on which to base objectives-oriented standard-setting.

In September 2002, the U.S. FASB and the IASB issued the Norwalk Agreement, in which they each acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that meeting, the FASB and IASB pledged to use their best efforts (a) "to make their existing financial reporting standards fully compatible as soon as is practicable"; and (b) "to coordinate their future work programs to ensure that, once achieved, compatibility is maintained" (IFRS, 2012). Subsequently, the FASB and IASB initiated a joint project in 2004 with the goal of developing the first commonly agreed CF in accounting, the primary motivation being to provide a consistent intellectual foundation for the convergence of the two standards (Whittington, 2008a).

The CF was said to be built by refining, updating, completing, and converging the two boards' existing frameworks into a common framework (Bullen & Crook, 2005). The usefulness of accounting information in making economic decisions is the overriding objective of both frameworks. The IASB's (1989) CF focuses on the information needs of a wide range of users—investors, employees, lenders, suppliers, customers, governments, and the public—who, unlike management, have to rely on financial statements as their major source of financial information about an entity. Similarly, the FASB's *Concepts Statement No. 1* (November 1978), emphasizes usefulness in investment and credit decisions. Additionally, assessing prospective net cash inflows to an enterprise is another objective of both boards. Both frameworks also cite the need for notes and supplementary information.

One of the aims of the IASB CF project was to determine which external decisions and decision-makers should be the primary focus. Another issue to be addressed in the joint framework concerned what types of financial reports are best suited to those who make investment, credit, and similar decisions about small, privately held entities, not-for-profit organizations, or public sector bodies, and those who make decisions about large, publicly traded companies. The 2010 Conceptual Framework is aimed at financial reporting, whereas the 1989 Conceptual Framework was aimed at financial statements. Apparently, financial statements are a principal part of financial reporting; as such, the 2010 Conceptual Framework has a broader focus than the 1989 Conceptual Framework. Financial reporting refers to any reports based on management demand as well as the set of general purpose financial statements. The financial statements are prepared annually and focus on the common information needs of a wide range of users. Some of these users may also need additional information about what is contained in the financial statements.

The joint project was started in 2005 and was spread over 8 phases, which are as follows; Phase A: Objectives and qualitative characteristics; Phase B: Elements and recognition; Phase C: Measurement; Phase D: Reporting entity; Phase E: Presentation and disclosure; Phase F: Purpose and status; Phase G: Application to not-for-profit entities; and Phase H: Remaining issues. Phase A was completed in September 2010.

In July 2006, the IASB and FASB issued the first joint document. The discussion paper, *Preliminary Views on an Improved Conceptual Framework for Financial Reporting*, covered the objective of financial reporting and the qualitative characteristics of accounting information. The FASB and IASB received 179 responses. In its deliberations of the issues on this topic, the board considered all the comments received and the information gained from other outreach initiatives. In May 2008, the board and the IASB jointly published an exposure draft, to which they received 142 responses.

3. Concerns Raised in the Discussion Paper and Exposure Draft of the IASB CF and the Responses of IASB and FASB

The IASB and FASB's consensus to develop one common framework attracted much attention worldwide. As previously stated, it was

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thought at first that this revised CF would be unchallengeable because it builds on the prior frameworks, but this presumption was false.[3] As evidenced by the feedback on the discussion paper and exposure draft, there was immense interest from investor/analysts, preparers of financial reports, professional organizations, standard-setters, academics, not-for-profit, regulators, and accounting firms regarding what was embraced in the revised CF. Specifically, the discussion paper and exposure draft ignited fierce debate on issues such as the objectives of financial reporting, who the users of financial reports are, and what should be the qualitative characteristics of accounting information.

The concerns raised in the discussion paper and exposure draft of the revised CF and the responses of IASB and FASB are examined in detail below.

4. Objectives of Financial Reporting

4.1. Issues of Concern

The objectives of the CF are the foundations of the framework and the focus of these objectives is on the decision-usefulness of the accounting information only (European Financial Reporting Advisory Group (EFRAG), 2007). In their discussion paper, the IASB and FASB argued that their objective of decision-usefulness "encompasses providing information useful in assessing management's stewardship" ("the stewardship objective") (EFRAG, 2007, p. 3). However, due to the important role stewardship plays in information dissemination where the owners are not the managers, there was enormous pressure for stewardship to be a separate objective of financial reporting in the converged framework.

Stewardship has played a primary role in the history of the IASB and FASB. The Trueblood Report published in 1973 by the American Institute of Certified Public Accountants (AICPA) considered stewardship to be quite important in financial reporting, and the report's objectives refer to financial statements primarily serving "those users with limited authority, ability, or resources to obtain information" (AICPA, 1973, Objective 2) and supplying "information useful in judging management's ability to utilize enterprise resources effectively in achieving the primary enterprise goal" (AICPA, 1973, Objective 5). Similarly, in the UK, the Accounting Standards Steering Committee (ASSC) published a corporate report which considered stewardship to be an important aspect of the "public accountability" of organizations (ASSC, 1975, p. 15). It also stated that corporate reports "are the primary means by which the management of an entity is able to fulfill its reporting responsibility by demonstrating how resources with which it has been entrusted have been used" (ASSC, 1975, p. 16).

This focus on stewardship eventually faded. By the time FASB published its U.S. GAAP, stewardship was included in a secondary role as a "type of information" (Financial Accounting Standards Board (FASB), 1978, para. 50) which would "fulfill" users' needs in making investment, credit, and similar decisions (Pacter, 1983, p. 78). According to Solomons (1986, p. 119), FASB's (1978) statement on objectives "substantially confines its attention to the needs of investors and creditors" and "barely recognizes the needs of managers".

The downgraded focus on stewardship became more evident in the revised CF project. According to Zeff (2013, p. 313), "prior to completion of the initial chapters of the joint IASB/FASB Framework of (2010), all of the previous frameworks in the decision-usefulness mode provided an explicit place for stewardship in their statements of objectives". Even though the 2006 exposure draft (IASB/FASB, 2006) makes references to "stewardship", the focus is exclusively on management's responsibilities to the providers of capital. This implies that "stewardship should no longer be considered to be of equal status to decision-usefulness, and that any debates on the future direction of financial reporting should be premised on the primacy of the decision-usefulness criterion" (Murphy, O'Connell, & O'Hogartaigh, 2013, p. 7).

The proposed demotion of stewardship attracted deep resilient feedback from all those who had an interest in the CF, such as accounting academics and practitioners (Murphy et al., 2013). When the IASB/FASB issued the 2006 discussion paper, many of the responses focused on the stewardship question. Of the respondents, 78% proposed that stewardship should be a separate objective of financial reporting in the converged framework. One of the respondents commented that:

> …in not having stewardship as an objective, there is a danger in the future that information useful for stewardship purposes, for example, in an area such as related party disclosures, may not be included in financial statements on the grounds that it is not thought to be "decision-useful" for resource allocation purposes (EFRAG, 2007, p. 5).

Respondents commented that one objective of financial reporting should be that it should act as a communication tool between shareholders and managers. As the owners of a business, shareholders not only need to make decisions about whether to buy, sell, or hold equity as per Objective 2 of the CF, they also need to decide whether to reappoint or replace management, assess the adequacy of management compensation, and consider management's proposals about potential strategy changes, as well as assess the success of past strategies. Another respondent commented that:

> …when investing in a company, you do not simply buy some assets and liabilities, you essentially trust the intentions of the company, i.e. the management and the way they intend to steward the capital entrusted to them. Otherwise, the investor would have bought other assets or shares (EFRAG, 2007, p. 7)

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The importance of stewardship as an objective is also crucial for assessing an entity's prospects of future net cash flows (para. OB4 of the revised CF); as one of the respondents commented, "stewardship is a powerful indicator of their ability in the future to generate net cash inflows" (EFRAG, 2007, p. 7).

With regard to cash flow, users always look for more than a projection of the future cash flows of an entity; cash flow may vary considerably under different management, and shareholders need the tools to enable them to analyze this possibility. This reinforces the need for stewardship to be a separate objective.

Following the release of the discussion paper, IASB published an exposure draft on the first phase of the revised CF in March 2008 with a comment period that ended in September 2008. Even though there was broad support for the conceptual framework project and the project objectives, there were still respondents who commented particularly on how the board articulated the objective of financial reporting. Concern regarding the failure to explicitly recognize stewardship as an objective again surfaced, even though some aspects of the discussion paper comments were incorporated in the exposure draft (Murphy et al., 2013). Although stewardship was mentioned in the exposure draft, it was "subsumed by the financial reporting goal of providing decision-useful information" (O'Connell, 2007, p. 216) and therefore the "needs of stewardship are assumed to be met within the decision-usefulness objective" (Whittington, 2008b, p. 498–499).

4.2. Response of the IASB and FASB

Of the respondents, 78% proposed that stewardship should be a separate objective of financial reporting in the converged framework. Despite this widespread support for stewardship, the IASB made the decision that stewardship would not be a separate objective but that it would be assimilated into the decision-usefulness objective.

[3] Because IASB decided in December 2012 to reactivate the Conceptual Framework project as an IASB-only comprehensive project and not as the IASB/FASB project, the IASB/FASB CF will be referred to as the revised CF hereafter.

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The board stated that:

> …the objective of financial reporting has been amended to clarify that its purpose is to help users to make decisions about providing resources to an entity, which includes decisions about the accountability of the entity's management (IFRS, 2010, p. 5).

> …in the light of the comments received, we have modified the wording so that the chapter now describes what stewardship encapsulates (IFRS, 2010, p. 7).

In spite of these statements, the revised CF does not encapsulate what was promised by the IASB, because paragraph OB16 of the IASB Framework 2010 states that "information about the return the entity has produced provides an indication of how well management has discharged its responsibilities to make efficient and effective use of the reporting entity's resources". The words *how well* management has discharged its responsibilities give an indication of stewardship but imply a significant decrease in the importance of stewardship.

In contrast, the 1989 IASB Framework referred to stewardship as follows:

> …financial statements also [i.e. in addition to providing information that is useful in making economic decisions] show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management (para. 14 of IASB Framework 1989).

The boards explained that they decided not to use the term "stewardship" in the final version of the revised CF "because there would be difficulties in translating it into other languages"; and as a result, they chose "what stewardship encapsulates" and phrased stewardship in the following terms:

> …to assess an entity's prospects for future net cash inflows, existing and potential investors, lenders, and other creditors need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources. Examples of such responsibilities include protecting the entity's resources from unfavorable effects of economic factors such as price and technological changes and ensuring that the entity complies with applicable laws, regulations, and contractual provisions. Information about management's discharge of its responsibilities also is useful for decisions by existing investors, lenders, and other creditors who have the right to vote on or otherwise influence management's actions (para. OB4 of IASB Framework 2010).

The above discussion clearly shows that despite being urged by a number of stakeholders to explicitly consider stewardship as a separate objective in the revised framework, the IASB gave limited consideration to those requests. The responses of IASB clearly indicate that stewardship was accorded greater prominence in the preceding framework than in the revised CF and illustrate how the objectives of CFs have transformed over time.

5. Users of Financial Reports

5.1. Issues of Concern

The revised CF limits the objective of financial reporting to addressing the needs of capital providers, defined as "present and potential equity investors, lenders and other creditors" (para. OB5 of IASB Framework 2010). In so doing, the revised Framework is narrowing the scope of financial reporting to the fulfillment of the needs of certain kinds of users, who are designated as primary users. The board assumes that:

> …other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups (para. OB10 of IASB Framework 2010).

However, the IASB 1989 Framework specifies a wide range of users, including "the present and potential investors, employees, lenders, suppliers, and other trade creditors, customers, governments and their agencies, and the public" (para. 9). The 1989 Framework gives priority to the needs of providers of risk capital to the entity and presumes that in meeting the needs of these specific users, the financial information will also meet most of the needs of other users (para. 10). On the other hand, the revised CF introduces a significant change in the determination of those users whose needs should be addressed by general purpose financial reporting.

According to Beaver and Demski (1974), there are many reasons why investors' information needs would not be same as those of other users, and even the IASB and FASB have mentioned that information needs between capital providers that invest in equity instruments and those who are lenders/creditors may differ (para. OB8 of IASB 2010 Framework; para. OB8 and BC1.18 of FASB, 2010 Framework). As such, there is no likelihood probability that there will be homogeneity in the information needs of different users.

Focusing on capital providers as the primary users poses a significant question as to what happens to the information needs of employees, suppliers, customers (all of them beyond their specific concerns as creditors of the entity), trade unions, governments, and public agencies that do not have the power to prescribe specific reporting. These information users do not have access to any source of information other than the financial reports. As a result of these concerns, substantial discussion again took place in the discussion paper and exposure draft as to whether or not having only one group of users as the primary user is appropriate.

The fact that the decision-usefulness approach is given the primary focus in the revised CF by reference to "information that is useful to users" implies that users are a crucial component of this CF. However, both the discussion paper and the exposure draft provoked a number of concerns regarding the shift in focus on users of accounting information from present and potential investors, employees, lenders, suppliers, and other trade creditors, customers, governments and their agencies, and the public, to capital providers only.

There have also been concerns regarding the identity of primary users of accounting information. Objective 3 of the discussion paper assumes that the needs of investors are served by providing "information to help present and potential investors and creditors and others to assess the amounts, timing and uncertainty of the entity's future cash inflows and outflows" (IASB/FASB, 2006). It has been commented that even though this is consistent with the previous CF, new users of IFRS may have the impression that current shareholders are not very important users of accounting information. Some respondents have suggested that there should be only one primary user, and that this should be the current shareholders because they bear the highest risk in the case of liquidation (IFRS, 2010).

Concerns were also raised by the users of CF that "financial reporting should focus on the needs of regulators and fiscal policy decision makers who are responsible for maintaining financial stability" (para. BC1.20 of FASB Framework, 2010).

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5.2. Response of the IASB and FASB.

In justifying the decision to include only "investors, lenders and other creditors" as primary users, the FASB emphasized that:

> …information that meets the needs of the specified primary users is likely to meet the needs of users both in jurisdictions with a corporate governance model defined in the context of shareholders and those with a corporate governance model defined in the context of all types of stakeholders (para. BC1.16 of FASB Framework, 2010).

Supporters of the financial stability objective upheld the notion of the regulator that users of financial reports should be given a specific focus in the CF. Hence, the fact that general purpose financial reporting is the major source of information for so many different users should result in the assignation of a category of primary users that is inclusive of more than capital providers alone. The IASB and FASB's decision to identify only a few users to facilitate the general purpose financial reporting objective does not appear to be the most appropriate means of bringing about improvement in the domain of financial reporting.

6. Qualitative Characteristics of Accounting Information.

The qualitative characteristics concern attributes that make financial information useful by distinguishing more useful information from less useful information. In the revised CF, the fundamental qualitative characteristics are relevance and faithful representation, and the enhancing qualitative characteristics are comparability, timeliness, verifiability, and understandability. Cost is a pervasive constraint on the reporting entity's ability to provide useful financial information. Financial reporting information that has predictive value or confirmatory value is relevant, while financial reporting information that is complete, free from material error, and neutral is said to be a faithful representation of an economic phenomenon.

As given in paragraph QC6 of IASB Framework 2010, "relevance" is defined as "information that is capable of making a difference in the decisions made by users". Concern has been expressed that information *capable of making a difference* is too broad, and it was proposed in the discussion paper and exposure draft that the definition be altered to include "reasonably expected" (IFRS, 2010). Additionally, paragraph QC7 of IASB Framework 2010 states that "financial information is capable of making a difference in decisions if it has *predictive* value, *confirmatory* value *or both*", but there is concern that, in addition to predictive value, general purpose financial reporting should focus on giving the best representation of the past. Therefore, the IASB and FASB should avoid the implication that financial reporting might include forward-looking information, except for specific circumstances such as a going concern uncertainty or measuring the impairment of an asset (IFRS, 2010).

One of the principal changes in the revised CF relates to the concept of "faithful representation" which is defined as "to be useful, financial information must not only be relevant, it must also represent faithfully the phenomena it purports to represent" and replaces the term "reliability" (IFRS, 2010, p. 3). In 2006, the FASB and IASB received 179 letters concerning their CF discussion paper, 78 per cent of which included comments regarding "faithful representation" (IASB, 2007). Of these, 5 per cent commented favorably about the inclusion of "faithful representation" as a qualitative characteristic, while 73 per cent commented that "faithful representation" would result in a loss of understanding. The respondents held the view that the definition of "faithful representation" is "not intuitive and open for misapplication resulting in additional confusion" (IASB, 2007). Examples of specific comments are that:

> …faithful representation does not encompass all of the key elements of reliability because reliability is a broader notion than faithful representation, and it includes a certain degree of uncertainty involved in depicting that economic phenomenon, and in particular, in measuring an item (IFRS, 2010, p. 13).

> …key feature of reliable information is that it can be "depended upon" (relied on), which is not reflected as a feature of faithful representation. While the CF stresses the focus of faithful representation on the depiction of economic phenomena, reliability has a nuance of assessing the economic phenomena itself (IFRS, 2010, p. 13).

There has also been immense concern regarding substance over form, prudence (conservatism), and verifiability, which were aspects of reliability in Concepts Statement 2 of the 1989 framework but are not considered aspects of faithful representation in the revised CF. Verifiability has been described in the revised CF as an enhancing qualitative characteristic rather than as a fundamental qualitative characteristic.

Recommendations have also been made that the boards should explicitly identify substance over form as either a separate component of faithful representation or as a separate fundamental qualitative characteristic; however, in the current revised CF there is no mention of substance over form. Including prudence (or conservatism) as a component of the fundamental qualitative characteristics of the revised CF has also been suggested by respondents to the discussion paper and exposure draft. According to these respondents, neutrality as an aspect of faithful representation does not adequately capture the notion that one should not overstate or understate financial statements (para. 3.27 of FASB Framework, 2010). Yet again, this suggestion has not been incorporated in the revised CF.

Some respondents to the exposure draft stipulated that the qualitative characteristics should not be identified as fundamental and enhancing because the distinction between fundamental and enhancing qualitative characteristics is arbitrary (para. BC3.9 of FASB Framework, 2010).

Response of the IASB and FASB.

Even though 73per cent of the feedback on the discussion paper did not support the replacement of the term *reliability* with *faithful representation*, the two boards reaffirmed their decision to replace the concept of "reliability" with the concept of "faithful representation". The boards argued that:

> …the comments of respondents to numerous proposed standards indicated a lack of a common understanding of the term reliability. Some focused on verifiability or free from material error to the virtual exclusion of faithful representation. Others focused more on faithful representation, perhaps combined with neutrality. Some apparently think that reliability refers primarily to precision (para. BC3.23 of FASB Framework, 2010).

Further the IASB commented that:

> …we acknowledge that the term reliability is more familiar than faithful representation. However, given the nature and extent of the long-standing problems with the meaning of reliability, and the failure of the previous efforts to address them, we reconfirmed our decision that reliability should be replaced with the term faithful representation (IFRS, 2010, p. 12).

Pertaining to the distinctions between the fundamental and enhancing qualitative characteristics, neither the FASB nor IASB believed that the distinction between the two is arbitrary. The boards commented that:

> …financial information without the two fundamental qualitative characteristics of relevance and faithful representation is not useful, and it cannot be made useful by being more comparable,

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verifiable, timely, or understandable (para. BC3.10 of FASB Framework, 2010).

Furthermore, the revised CF did not consider substance over form as a separate component of faithful representation because, according to the boards, "faithful representation means that financial information represents the substance of an economic phenomenon rather than merely representing its legal form" (para. BC3.26 of FASB Framework, 2010). According to the boards, if the financial information represents a legal form separate from economic substance, then the faithful representation of the information is defeated.

Reflecting on the above discussions, it is evident that little consideration was given to the interests of various stakeholders in finalizing Chapter 1 of the revised CF. Not attending to the concerns of stakeholders with a deep interest in the CF is likely to have implications for the financial reports of countries that have converged with IFRS. Thus, the next section discusses the possible implications of not incorporating the issues raised in the discussion paper and exposure draft on financial reporting.

7. Implications of Revised Conceptual Framework on Financial Reporting

This section is motivated by the fact that exploring the implications of the revised CF is imperative because there should be alignment between the objectives of the financial reporting, that is, "to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity" (CF 2010, par. OB2), and what should faithfully represent the information needs of these investors, lenders, and other creditors so that these stakeholders are able to make informed decisions. Henceforth, the implications of the three concerns raised in this paper would be discussed, that is, the objectives of financial reporting, the range of potential users of financial reports and the qualitative characteristics of accounting information.

8. Objectives of Financial Reporting.

The crucial role that stewardship plays in the dissemination of accounting information should be reflected with specific acknowledgement in the revised CF under the objectives of financial reporting. However, the revised CF makes no reference to stewardship under the objectives of the CF, and it is only acknowledged under the general introduction on page A24 of the IASB Framework 2010 as "to assess the stewardship or accountability of management".

From the objectives as set out in the revised Framework, it appears that this "CF supports financial reporting with a content and substance that differs quite markedly from that to which many users of financial reporting standards are accustomed" (Lennard, 2010, p. 5). The stewardship objective has been seen to contribute to important dimensions of financial reporting because it is the foundation for a constructive dialogue between management and investors (Lennard, 2010). Stewardship is inherently linked to agency theory. The separation of management and ownership entails having the means to minimise agency cost, and one of the primary means is to provide detailed records of business operations to owners, which is where stewardship comes to the fore. Gjesdal (1981) in his seminal paper stipulates the rationale for the existence of a stewardship demand for accounting information. In his framework, accounting information is equally significant for stewardship as it is for making investment decisions. Gjesdal (1981, p. 214) defines stewardship demand as the "demand for information about a variable of choice for the purpose of controlling it".

Researchers in the area of executive compensation and capital markets research have also regarded decision-usefulness and stewardship as two different financial reporting objectives. For example, Kothari, Ramanna, and Skinner (2010) theorise "decision-usefulness" as performance evaluation while "stewardship" is viewed as efficient contracting, and Beyer, Cohen, Lys, and Walther (2010) conceive of "decision-usefulness" as valuation roles while "stewardship" is viewed as ex-post monitoring. Other researchers have also assumed a wider viewpoint of the term stewardship. For example, Ijiri (1975) focuses on efficiency, effectiveness, and future plans as being the same as stewardship. Birnberg (1980) also sees stewardship in a broader perspective as a focus on strategic planning and control.

According to Wu and Zhang (2009), the stewardship objective would have a significant influence on businesses' choice of accounting policies, and it is therefore important to have more knowledge on the importance of having stewardship as a separate objective rather than stating what stewardship encapsulates.

The separation of control and ownership has widespread consequences and although management is entrusted to act in the best interest of the owners, there is still a need to communicate the actions of management to the owners. For example, even though a company's objectives and strategies are identified at the beginning of the year, new challenges and prospects always arise for businesses during the year and managers have autonomy to change accounting policies and estimates, amend business strategies, and make financing decisions that require substantial disclosure. The financial reports are seen as a key channel for providing information because the required accounting rules are followed when the reports are prepared. If stewardship is perceived as "what stewardship encapsulates" rather than explicit emphasis being placed on the objectives, then accomplishing decision usefulness—which is the primary focus of the revised CF—will fail. This also leaves one to wonder whether information which is not part of the accounting information also has no relevance for stewardship purposes.

According to Williams and Ravenscroft (2015) financial reporting policy-making and related academic research has focused for more than forty years on decision usefulness, which is based on certain belief rather than empirical evidence. Williams and Ravenscroft (2015) identify three issues in the concept of decision usefulness. First, they cite the failure of the conceptual framework to prove decision usefulness when the emphasis is on individual decision makers, as the "individual's rational resource allocation decision depends entirely on that individual's 'utility', context, culture, emotional state, intellect, intuitions, values, native language, sex, etc." (p. 26). Second, there is much less probability that accounting data will have predictive value in respect of economic outcomes, and third, they express the concern that the accounting numbers could be the operational numbers, and the limitations of their conceptual meaning. Due to these limitations, which are inherent in decision usefulness and remain unaddressed, decision usefulness cannot be defined in a manner that allows its application to policy choice at either the micro (individual decision-maker) level or the macro, economy-wide level. Therefore, in light of the above discussion, it is clear that decision usefulness has weaknesses that have not been dealt with and the current emphasis in the revised conceptual framework has not considered these limitations.

Murphy et al. (2013) have adopted the "living law" approach to explore the discourse on stewardship. The living law approach views legal norms as one of many sets of social norms and, moreover, as norms that can be understood meaningfully only in their broader social context (Walsh, 2004, p. 169). Murphy et al. (2013, p. 74), for example, draw on Barden and Murphy's (2010, p. 4) idea that the living law represents a moral tradition comprising "the set of those ways of acting that, in a particular community, are admired and thought appropriate to common types of situations". Murphy et al. (2013, p. 73) also specify that their use of the term "living law" refers to "the moral or customary tradition of a particular community". They suggest that "there is a 'living law' of the accounting profession that preexists, and exists now separately from, state law and systems of professional self-regulation" (p. 75) and argue that since ancient times, stewardship/accountability has been fundamental to understanding how and why accounting

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emerged in the first instance. They therefore hold that accountability/stewardship is an inherent element of accounting. This analysis of the living law of accounting strongly suggests that, with stewardship at its centre, accounting had a predominantly beneficial impact on the evolution of society (Murphy et al., 2013). This analysis also explains why there have been strong, unfavorable reactions from many parties to the subsumption of stewardship under decision usefulness.

According to Jones (2011) and Markham (2006), the recent crises in accounting have occurred at the same time as stewardship is losing prominence in financial reporting, and therefore an important challenge for the accounting community is to warrant that the "covenant" (Briloff, 1990) between accounting and society is both restored and reinvigorated as part of the living law of accounting (Murphy et al., 2013, p. 17). The living law analysis strongly recommends that if trust within society is to be restored, a renewed emphasis on stewardship is critical.

The exclusion of stewardship from the main objectives of CF might permit the accounting standards to exclude information, or to present information in a sub-optimal way which will have implications for recognition, measurement, and presentation issues. Some examples of such implications are provided below.

8.1. Capitalization of Acquisition Costs

In a business combination, the acquisition costs are expensed because the acquisitions are booked initially at fair value of the acquired business; this has been interpreted as a resource allocation approach (EFRAG, 2007). However, if stewardship were to be given prominence in the CF as a major objective of financial reporting, users would be informed about the accountability for all costs associated with an acquisition, both in the year of acquisition and in future years, and would hope to see a return on total cost. In the years subsequent to the acquisition, it is imperative for investors to know both the aggregate cost of an acquisition and the acquired asset's present value in use to show whether it has appreciated and by how much (EFRAG, 2007). This also provides information regarding management's decisions in making and managing the acquisition.

8.2. Employee Share Options.

Crotty (2005) highlights that there has been a significant increase in employee share options over time. For example, in 1979, the share option portion of the remuneration package for the top 100 CEOs was 22%, and by 1999 this had increased to 63%. Given their significant role in the remuneration package, employee share options may be treated differently if stewardship is given consideration in the revised CF. For example, if an entity settled share options to employees during the period as part of a bonus arrangement, this information would warrant disclosure in respect of discharging management's accountability to shareholders because the cash flow available to shareholders would be affected (EFRAG, 2007).

8.3. Non-Current Assets Held for Sale.

IFRS 5 *Non-current assets held for sale and discontinued operations* permits non-current assets held for sale to be classified as such as long as there is "an active programme to locate a buyer" and management is "committed to a plan to sell the asset". Stewardship may well look to legal or constructive commitment as the minimum criterion for such classification if stewardship were explicitly stated as an objective. It would require that discontinued operations were reported at the gross amount on the face of the financial statements rather than as a net figure in a single line item. The consequence of not reporting the gross amount might imply that a decision to discontinue relates to the past performance of the operation and is no longer relevant. However, information on the discontinued operations on the face of the financial statement illustrates the financial consequences of business decisions made by management and is therefore important in the investors' assessment of whether to continue to entrust management with the running of the company (EFRAG, 2007).

This proposition is well supported by the research undertaken by Curtis, McVay, and Wolfe (2014), who examined whether the scope of accounting for discontinued operations affects the properties of continuing income. Curtis et al. (2014) provide evidence that continuing income is more persistent when discontinued operations are reported as a gross amount on the face of the financial statements rather than as a net figure in a single line item. Hence, their findings support the retention of the broader scope of the rule.

8.4. Needs of Investors of Private Entities and Stakeholders of Not-for-Profit Entities.

Salamon et al. (2007) provide evidence that NFP organizations account for nearly 4% of global Gross Domestic Product increasing to over 5% when the value added by volunteers is included. Therefore, the sustainability of the NFP sector is crucial. For a NFP, sustainability can be defined as "being able to survive so that it can continue to serve its constituency" (Weerawardena, McDonald, & Mort, 2009, p. 2) and the achievement of NFP sustainability could be through a conceptual framework foundation which emphasizes stewardship. As NFP organizations are run by their mission and purpose, a strong basis of stewardship is more appropriate.

Not having stewardship as a separate objective would also mean that not all the needs of investors of private entities and the stakeholders of not-for-profit entities would be met. Both types of entity prepare financial reports with a stewardship focus to report on whether management is completing their tasks as required. Hence, this runs contrary to one of the aims of the revised CF, namely, to decide what types of financial reports are best suited to those who make investment, credit, and similar decisions about smaller, privately held entities, not-for-profit organizations, or public sector bodies, and those making decisions about large, publicly traded companies (EFRAG, 2007).

8.5. Social and Environmental Reporting.

Since the revised CF has lessened the emphasis on stewardship, the International Corporate Governance Network (ICGN) has publicly commented that not giving stewardship an explicit emphasis is "unfortunate" (O'Connell, 2007, p. 216). This de-emphasizing of stewardship is likely to have important and perhaps unforeseen consequences in the areas of social and environmental reporting. According to O'Connell (2007, p. 223) "the concepts of social and environmental reporting have been rooted within the broader notions of stewardship and accountability". For example, Grimsey and Lewis (2002, p. 246) argue that:

> …accountability also has broader economic and social purposes and objectives because of the many other groups that have a legitimate interest in knowing about the activities and operations... A further factor is to recognize that society is in a constant state of change, and that it is necessary that accounting norms should leave ample room for evolution and innovation in accounting standards, so long as they enhance the usefulness of accounting reports.

Previous research shows that the demand for corporate social and environmental reporting is growing (e.g., Friedman & Miles, 2001), but the IASB/FASB decision to rule out stewardship as a primary reporting objective raises the fundamental question concerning the extent to which businesses will disclose social and environmental events such as carbon emissions, water and natural resource usage in Australia, for example, when they know that there are no mandatory accounting standards.

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9. Users of Financial Reports

Since the conceptual framework acts as the fundamental basis for articulating consistent accounting standards, a critical question that arises is for whom and for which needs accounting standards are formulated. The revised CF addresses these questions differently from the 1989 framework. As previously discussed, the 1989 framework asserts that financial reporting is directed towards the common information needs of a wide range of users which "include present and potential investors, employees, lenders, suppliers, and other trade creditors, customers, governments and their agencies and the public" (para. 9), although providers of risk capital are given priority. The revised CF, however, limits the objectives of financial reporting to addressing the needs of a primary user group, defined as capital providers who are seen as the present and potential equity investors, lenders and other creditors (para. OB5 of IASB 2010 Framework).

The revised CF points out that "other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups" (para. OB10 of IASB 2010 Framework). This narrowing of the span of financial reporting to discharge information to only certain kinds of users labelled as primary users will certainly have implications for financial reports.

> The fact that the capital providers (present and potential equity investors, lenders, and other creditors) have the most pressing and crucial need of financial information does not mean that other users such as employees, suppliers, customers, government, regulators do not have an immediate and crucial requirement for accounting information. IASB supposes that based on the revised CF, the financial reports prepared meet the "common needs of most users" (IASB 2010 Framework, A24). It further states that nearly all users make economic decisions, for example: (a) to decide when to buy, hold, or sell an equity investment; (b) to assess the stewardship or accountability of management; (c) to assess the ability of the entity to pay and provide other benefits to its employees; (d) to assess the security for amounts lent to the entity; (e) to determine taxation policies, (f) to determine distributable profits and dividends; (g) to prepare and use national income statistics, and (h) to regulate the activities of entities (IASB 2010 Framework, A24).

However, by limiting the focus on who the users are, this revised CF does not provide fairness to users other than capital providers. Users such as employees, suppliers, customers, and government are critical for the success of any business, and as such their information needs cannot be ignored. For example, the accounting standards based on this revised CF will be closely followed by many different types of businesses such as banks, insurance companies, and financial institutions which may generate systemic risks for the government; thus, it is crucial that government information needs are considered as equitably as those of capital providers.

The assumption by the IASB that the information needs of other users of accounting information will be fulfilled by targeting the information needs of capital providers is based on the fact that capital providers are believed to be comprehensive users of accounting information, but this may be prejudicial to other users because they have no alternative means of obtaining the information other than from the general purpose financial reports. This approach of the IASB and FASB may reflect such contexts as the U.S. economic environment, in which financing across huge equity is much more developed than in other parts of the world (Hail, Leuz, & Wysocki, 2009). This then poses challenges to countries which have adopted IFRS but generally do not have large equity markets. Additionally, the revised CF also points towards information needs that are related only to for-profit entities listed on financial markets which raise capital from capital providers, rather than non-profit entities for which information is more directed towards the management of the entities. Another question which merits attention is whether the primary users will remain the same when the IFRS are applied to small and medium enterprises.

Reflecting on the stated information needs of primary users, as in paragraph OB3 of IASB 2010 Framework for example, "investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing, and uncertainty of (the prospects for) future net cash inflows to the entity" may not meet the needs of other users. Beaver and Demski (1974) have pointed out that investor consensus or unanimity may not exist with respect to which information should be produced, because what is relevant information to one might not be relevant information to another. Barton (1982) indicates that investors' information needs represent their personal risk-taking attitudes, the expected returns on their investments, and investment time horizons, which can be individual-based. The financial accounting environment is a multiperson setting, which may affect both the production and exchange sectors of an economy (Barton, 1982).

There has been general agreement that the IASB should develop accounting standards for SMEs (Anacoreta & Silva, 2005) and this means that, based on the revised CF, the accounting standards for SMEs will be revised and new standards for SMEs will be developed. The main users of the financial statements of small entities are seen as being banks, owners, and tax authorities (IFAC, 2006). Banks need to determine the capacity to repay loans and evaluate the security and liquidity of a business, owners, and tax authorities, who need to determine remuneration packages and dividend payouts to monitor performance for future business planning and expenditure. Tax authorities also tend to be key recipients of SME accounts to "determine gross profit, assess directors' fees, look at tax provisions, ensure that expenses are reasonable and check for a clean audit report" (IFAC, 2006, p. 2). The need of users other than capital providers for accounting information clearly points to the fact that many users will not receive the information they are entitled to.

10. Qualitative Characteristics of Accounting Information

It is crucial that accounting information has all the qualitative characteristics defined in Section 6, but can we say with confidence that it does, in fact, have all these characteristics? A study undertaken in Jordan in 2007 clearly shows that there is a gap between the external auditors and investors in terms of the importance of the qualitative characteristics of accounting information (Obaidat, 2007). It was found that auditors and investors agree about the importance of some characteristics but disagree about others, which creates a knowledge gap. It is also clear from the studies that auditors are more concerned than investors about qualitative characteristics.

Materiality (para. QC11 of IASB 2010 Framework) is considered to be a crucial aspect of relevance in the revised CF, and because it is a notion based on the information needs of users, it is essential to agree on what is material to users. The concept of materiality is linked to the objectives of financial reporting and thus what is material and for whom will be dependent on the CF. As discussed previously, stewardship given little prominence in the revised CF, which means that information on environmental issues, such as carbon emissions, might not be considered to be material. A survey by Chartered Financial Analysts (CFA) showed that 66% of respondents revealed that omission to disclose that which is not required could materially impact a user's opinion as to the value of an enterprise, which would lead to material misstatement of the financial information (International Auditing and Assurance Standards Board (IAASB), 2012). The findings also suggest that users expect preparers and auditors to go beyond the specific requirements of what the CF provides as boundaries to financial information and take into account other disclosures that will impact users' opinions. However, the revised CF does not make allowance for such disclosures.

Faithful representation occupies the place held by *reliability* in the 1989 framework, in which reliability was broken down into

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representational faithfulness, verifiability and neutrality. Representational faithfulness included both completeness and freedom from bias. The revised CF has now established that "a faithful representation of… economic phenomenon… must be *complete, neutral, and free from error*" (para. QC12 of IASB 2010 Framework). To avoid measurement arguments that are linked to "reliability", the two boards decided to change the concept. The boards commented that:

> …in considering the issues related to... reliability, as well as standard-setters' experience with assessing reliability, the boards observed the existence of a variety of notions of what the concept means. For example, some constituents focus on verifiability to the virtual exclusion of the faithful representation aspect of reliability (para. BC2 FASB, 2010 Framework, p. 26).

As the name of the qualitative characteristic changed, the underlying meanings have changed slightly as well (Bahnson & Miller, 2007). Many respondents to the discussion paper and exposure draft indicated that they do not believe that the change in the name from "reliability" to "faithful representation" will affect the view of what is expected of preparers and auditors (IAASB, 2012). Similarly, many respondents believed that "the change in the name is a semantic reflection of the reality of modern business—for example, the move towards fair value and the judgments that are required" (IAASB, 2012, p. 6).

The above feedback clearly indicates that the term "reliability" was dropped because people did not understand its meaning, or held an alternative understanding of the meaning of the term. Verifiability was considered to be a crucial element of reliability in the 1989 framework and people who made the assumption that reliable information meant only information that was subject to verification were considered to have an invalid idea of its meaning (Bahnson & Miller, 2007). In the revised CF, however, verifiability is undeniably also considered to be an important aspect of faithful representation, as indicated in QC26 of the IASB 2010 Framework, which states that "verifiability helps assure users that information faithfully represents the economic phenomenon it purports to represent".

According to Statement of Financial Accounting Concept (SFAC) No. 2, verification implies consensus (agreement) among independent variables and it can be measured by the dispersion within a number of independent measurements of a phenomenon (FASB, 1980, p. 84). Some researchers, such as Parker (1975) presume that consensus of information implies reliability. However, there are questions as to whether the assurance of reliability is an appropriate measure for verifiability (Maines & Wahlen, 2006). If consensus is used as a proxy for verifiability, then "auditors and preparers may agree on unreliable classifications and measurements for a variety of reasons, including similar incentives, similar knowledge or information, and common information-processing heuristics" (Maines & Wahlen, 2006, p. 411), which may lead to incorrect information being disclosed to users. For example, in research using tasks with wide variations, individuals demonstrated consensus on inaccurate answers because they relied on knowledge from similar experiences, but this might have little relevance to the task being undertaken (Maines & Wahlen, 2006). Given that verifiability is still important in deciding whether or not information is a faithful representation, this may continue to be a problem even when financial reports are prepared using the revised CF. For example, if verifiability means "consensus", accountants and auditors might agree on information that is nevertheless incorrect, which could also impact on the independence and professional competence of both parties.

The replacement of reliability with faithful representation has furthermore been seen by some (e.g. see Bradbury, 2008; Whittington, 2008a) to get rid-off of the possible trade-off between relevance and reliability. According to Whittington (2008a, p. 148) "this trade-off is frequently invoked as a reason for not using fair value measurements, which are perceived as often being relevant but unreliable". Paragraph QC15 of Framework 2010 on a similar line, suggested that "free from error" does not mean perfectly accurate in all respects. For example, estimating values of assets in the inactive market may not be accurate or inaccurate; however, a depiction of value can be faithfully represented if the amount is portrayed clearly and accurately as being an estimate based on the methods of estimation used. These changes in the qualitative characteristics of accounting information align well with IASB's working agenda to incorporate Fair Value Accounting (FVA) in the IFRS. For the inactive assets, however, significant management discretion is involved in calculating the fair value of the assets and determining the amount and timing of asset valuation and/or revaluation (McSweeney, 2009) and this concern has not been taken seriously in the FVA debates. This value has implications for users of accounting information in the sense that the value may be relevant but is not reliable.

Historical insights reveal that the term "faithful representation" was previously known as "representational faithfulness" and has been adopted from FASB's CF. Prior studies including Joice, Libby, and Sunder (1982); Solomons (1986), and Sterling (1988) provide evidence that "representational faithfulness" is difficult to understand and operationalize. These studies clearly demonstrate that concerns regarding the concept "faithful representation" are widespread and unresolved.

The above discussion speculates on instances that might arise in respect of the stewardship responsibilities of managers towards owners, who should be considered as the prime users of accounting information, and highlights how the current qualitative characteristics may not convey appropriate accounting information to users once the revised CF is in place and is used to develop new IFRS or amend the existing IFRS.

11. Concluding Remarks

The IASB and FASB's attempt to revise their conceptual frameworks to come up with an improved CF was a great opportunity to surmount the limitations of their individual frameworks. However, in January 2014 it was decided that IASB/FASB CF would no longer be a joint project but that each board would work on their conceptual framework independently.

We have reviewed Phase A of the revised CF project identifying the key concerns raised in the discussion paper and Exposure draft of the IASB CF and analysing to what extent the concerns raised by the stakeholders have been taken into consideration in the revised CF. From the analysis of the actions taken by the IASB in response to the opinions of the advocates of the CF, it can be ascertained that the boards acknowledged the concerns of the public to only a limited extent. This reaction of IASB shows that it has again misidentified the problems in its 1989 framework, because there are notions within the CF, such as reliability, that have not been solved and have now been replaced with faithful representation, which will have no positive impact on the preparers and auditors of financial reports.

Additionally, the analysis shows that IASB is de-emphasizing important financial reporting objectives that existed in the previous framework. For example, the analysis clearly shows that stewardship has always been an important part of the objective of financial reporting, and the downgraded focus on stewardship clearly explains the strong adverse reactions by commentators on CF. Reflection on the efforts by the boards to de-emphasize the formal role of stewardship suggests that this would have undesirable consequences for users of accounting information because users would be far removed from many of the actions of management, which would have an impact on the opinions they hold on entities.

The analysis further shows that focusing on capital providers as the primary users of accounting information will not fulfill the information needs of other users, because users of accounting information require heterogeneous information. The boards have assumed that, by satisfying the needs of capital providers, information required by other users will also be provided, but this claim clearly contradicts what the literature has stated about the users of accounting information. Furthermore, the claim by the boards that replacing reliability with faithful

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representation will reduce the confusion experienced by users, preparers and other stakeholders appears to be naïve, because the analysis shows that the change in the name of the concept has not changed the meaning. This therefore shows that the problems of the 1989 framework in relation to the notion of reliability will continue until an alternative is established.

Phase A of the revised CF might not achieve the desired objectives of the IASB because the board is either de-emphasizing critical aspects of financial reporting, such as stewardship, or simply giving different names to old concepts which remain unresolved, even though it is trying to overcome the flaws of the 1989 framework by building on it. A more suitable approach by the IASB would have been to consider more seriously the views and opinions of the supporters of the framework.

Finally, it should be noted that this study has only considered the opinions of the stakeholders who have provided feedback on the discussion paper and exposure draft. Future studies can further analyze the impact of the changes made in the revised CF to confirm whether the changes are indeed crucial in developing high-quality accounting standards and financial reports.

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