

IFRS Briefing Sheet

Discussion Paper on Objectives and Qualitative Characteristics of Financial Reporting

July 2006, **Issue 52**

This IFRS Briefing Sheet summarises the International Accounting Standards Board's (IASB) Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*, which was published on 6 July 2006.

A supplement to KPMG's publication IFRS in Brief

Background

The discussion paper is the first in a series of documents expected to be issued as a result of a joint project with the U.S. Financial Accounting Standards Board to develop a common conceptual framework for financial reporting.

The discussion paper discusses the objectives and qualitative characteristics of general purpose financial reporting for business entities in the private sector.

Objective of Financial Reporting

The discussion paper proposes that the objective of general purpose financial reporting is to provide information that is useful for making decisions related to investing in, granting credit to, or otherwise allocating resources to the entity.

Consistent with the current framework, the discussion paper concludes that the information relevant for resource allocation decisions is an entity's ability to generate cash; consequently the financial performance of an entity should be presented on an accrual rather than a cash basis.

One of the objectives of financial reporting noted in the current framework is to help users assess management's stewardship (i.e., safekeeping and efficient and profitable use of the entity's economic resources). While the Boards believe that information about stewardship is useful in making resource allocation decisions, they do not believe that it should continue to be a separate objective, because it is encompassed in the objective stated above.

Qualitative Characteristics

The discussion paper identifies four qualitative characteristics of decision-useful financial information: relevance, faithful representation,

comparability (including consistency) and understandability.

The main change from the current framework is the replacement of reliability with faithful representation as a primary qualitative characteristic. The Boards believe that reliability is embodied in faithful representation. The discussion paper clarifies that in order to give a faithful representation of an economic phenomenon, the

information must be verifiable, neutral and complete.

The discussion paper also clarifies the meaning of certain terms, including predictive value, faithful representation and reliability.

Response to the IASB

The IASB has invited comments on the discussion paper on or before 3 November 2006.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

KPMG International Financial Reporting Group is part of KPMG IFRG Limited.

KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent firms operating under the KPMG name. KPMG International provides no audit or other client services. Such services are provided solely by member firms of KPMG International (including sublicensees and subsidiaries) in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any other member firm, nor does KPMG International have any such authority to obligate or bind any member firm, in any manner whatsoever.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2006 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Publication name: *IFRS Briefing Sheet*

Publication number: Issue 52

Publication date: July 2006