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25 June 2009

Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN
Attn.: Melanie Kerr

Subject: Louder than Words.

Sir,

With great interest I have read your discussion paper "Louder than Words". Your investigations have lead to a number of observations which, like other studies, confirm that current reporting standards do not succeed in corporate, financial reports providing information in an adequate way. As you so aptly describe in chapter 4, even the standards are in some instances difficult to understand, lack proper definitions and use terminology inconsistently. The example of inconsistent use of terminology on pages 35 and 36 about probability thresholds in IFRS literature is indeed illustrative, putting it mildly!

I support the action four described on page 37, but would like such project to include setting up a data base with (cohesive) definitions and descriptions of terminology, whilst ensuring consistent use of definitions and terminology throughout all IFRS.

With respect action one I would like you to consider the following.

On page 9 you remark: "There is a need to re-establish the principle that corporate reports should be designed for their primary purpose – providing investors with information that is useful for making their resource allocation decisions and assessing management's stewardship". I am convinced that that principle should not be re-established, but instead abandoned, at least thoroughly reconsidered. This reconsideration should provide answers to questions like: how is usefulness determined, by whom and which user group has priority in case of conflicting information demands, with which frequency is usefulness to be determined? And what is exactly meant by "providing investors with information that is useful for ... etc"? Is statistical information (e.g. on temperature or rainfall for entities engaged in agricultural activities) to be included? Is information such as forecasts to be included? Does it include management commentary?

It is probably true that investors and other user groups indeed use corporate reports for their resource allocation decisions. But it is not true that a consequence of this observation should be that reports should be aimed at providing information that is useful for making resource allocation decisions.

Your action one also states: “Regulations should ... to: Provide relevant information that meets important user needs. Reflect the reality of business” These aims are inherently conflicting: should information that (one way or the other) is considered not relevant be omitted, if by omitting it, reality of business is not reflected? Should reality of business be fully reflected even if part of the information so provided does not meet (perceived) user needs? What’s the hierarchy of those two aims? The beginning of an answer you will find in the quoted remark on page 19 of your report.

I agree with your observation that reporting requirements should become more “principle based”. Principles should be part of a conceptual framework that guides standard setters in setting the standards. Accordingly any standard should include a description of the principles it applies and how these are met in that standard. In my opinion the current shortcomings of IAS/IFRS, leading to complex, incomparable reports, which possibly do not always reflect business reality, have as root cause the absence of a comprehensive and cohesive conceptual framework.

Any project that aims at reducing complexity or eliminating other shortcomings of current regulations should start with setting a conceptual framework. One of the first issues to address in such framework should be the objective of financial reports. Any other approach is doomed to fail as many studies, including your excellent investigations, implicitly demonstrate.

Please note that the above views are my personal views, not the views of any of the organizations I am related to.

Sincerely Yours,



P.A. Pieterse van Wijck