AccountancyAge

Investors oppose prudence in reporting

by Kevin Reed 12 Feb 2014

INVESTORS WANT "faithful representation" in financial information, as opposed to "prudence", according to a survey by CFA UK.

The survey of 277 of the society's members found 61% prefer faithful representation in reporting. Prudence was preferred by 31%. The result informed the society's response to the IASB's consultation on its conceptual framework, where the lack of recognition of prudence in the current framework has led to much debate.

Those who chose against prudence said it was more subjective, which results in higher hidden risk. One investor respondent said: "A rule of prudence would only lead to analysts having to build in a correction determining how prudent they thought management was being."

Half of investors thought they would need to adjust data to take into account a conservative bias if prudence was reintroduced as a concept.

The society's financial reporting and analysis committee supported faithful representation and neutrality, in its response to the IASB.

FRAC chair Jane Fuller, a judge in the **2013 British Accountancy Awards**, said: "In our response to the IASB we suggested the explanation of faithful representation could be improved by spelling out that it means capturing the underlying economic reality - or substance over form. Application of the concept in uncertain conditions could be enhanced by reference to "a degree of caution" - but not a conservative bias.

"Any bias of management towards optimism breaches the concept of neutrality and should be leaned against by auditors and independent directors. Users of accounts should be aware of the limitations of numbers that involve estimates, judgments and models, and which only relate to the balance sheet date.

Last month, ACCA told the IASB that prudence needs to be given more prominence in the framework.

Richard Martin, head of corporate reporting at ACCA, said: "This framework is important as it helps the IASB prepare, develop and revise IFRS in a coherent and consistent way.

"While accountability is referred to in the framework, and prudence is built into the existing IFRS in a number of ways, both need to be given more importance in the framework."