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Battle over 'prudence' isolates the IASB

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THE CLAMOUR for the IASB to re-insert a specific reference to the concept of prudence in its conceptual framework is now such, that one has to question the wisdom in the IASB's resistance to these calls.

A specific reference to the concept of prudence was dropped by the IASB in 2010 in favour of the concept of neutrality. The IASB has been berated for that decision ever since.

European politicians have urged the IFRS setter to stick the word back into the framework that underpins the way it sets global accounting rules. They have even

gone as far as to suggest that EU funding - which represents about a third of the body's total contributions - should be contingent on them putting the word back in.

Indeed, the FRC believes it should be explicitly acknowledged in the framework, while Lord Lawson, the former UK chancellor, described the decision to "abandon the touchstone of prudence and replace with neutrality" in order to drive forward accounting convergence with the US, as "with the wisdom of hindsight at the very least was a stupid thing to do".

Yet the greater the calls for the IASB to row back on its decision, the more it seems to dig its heels in. Hans Hoogervorst, chairman of the IASB, remains adamant that the basic tenets of the concept of prudence remain intact and visible throughout IFRS.

He has since said, in riposte to the EU's position, that as long as the discussion is "tied in to a political discussion" around funding, it is something the IASB "cannot accept".

But with the national standard setters of the UK, France (ANC), Germany (ASCG), Italy (OIC), and with European standard setters' advisory group Efrag all suggesting that it "remains open to question...whether the framework should specifically refer to prudence" you have to ask how long the IASB can face down such opposition.

If prudence is inherent in everything they do, you have to wonder why it is such a wrench to reintroduce. Perhaps acquiescence would be the start of ceding control.

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