

Conceptual Framework and Elements

At an FASB Concept Framework Symposium, a former member of the FASB discussed his views of a conceptual framework. He indicated the following:

Standard Setting in the Private Sector

A framework of concepts comprises ideas that coordinate to form the fabric of a system: they determine its bounds. In a system like financial reporting that serves a broad public purpose, the first plank in the framework identifies the public role. The decision of the public sector in the 1930s to look at the private sector for the principal thrust to standard setting was sound and extraordinarily enlightened.

The credence given financial reporting will determine whether the private sector's role in standard setting will grow or shrink. An operable conceptual framework will go a long way in providing the necessary level of credibility. Without an operable conceptual framework, continuation of standard setting by the private sector would stand in considerable jeopardy.

Essence of the Conceptual Framework

The conceptual formulation starts with the broad role of financial reporting in society. It:

- Identifies its unique competence, that is, its bounds.
- States the objectives of the reporting.
- Defines the things admissible to financial statements.
- Identifies the circumstances triggering admission and qualities to be met for admission to financial statements.
- Selects useful measurements of things admitted.
- Furnishes criteria for display.

Those are major pieces of the framework. There are others, of course. The various parts are in a hierarchy ranging from highly abstract to reasonably concrete. They lend guidance—they do not provide simple, no-think answers. They leave open a significant range for hard thinking and deliberation about reporting standards. They furnish the reference point for the thinking.

Prepare to discuss the following:

1. Summarize the basic concepts of the conceptual framework.
2. How do you think the success of the conceptual framework should be judged?