Does the IASB Revised Conceptual Framework 2018 provide a clear concept for Stewardship?

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Abstract:

This research aims to develop a methodology which evaluates whether the concept of stewardship in the 2018 Revised Conceptual Framework, assist in developing a better, more robust, and consistent basis for financial reporting. Thereby, this methodology can be used to guide standard-setting decisions in complicated and contentious topics. The research relies on a comparative study approach that concludes a comparison that highlights the differences between the 2018 Conceptual Framework and the previous frameworks, and also a doctrinal research approach based on analysis and interpretation. The research concludes the following , there is an interrelated relationship between the reintroduction of stewardship in the IASB 2018 revised Conceptual Framework and the availability of relevance, faithful representation, understandability, comparability, verifiability, and timeliness. And the IASB succeed to provide a precise and more elaborate

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stewardship concept in the 2018 Revised Conceptual Framework.

Keywords: *Stewardship, Conceptual Framework, and Financial Reporting.*

Introduction

In the early twentieth century, the globalization and internationalization of companies emerged from the development of trade and the ability to invest in any country directly. Information represented the most critical prompt for globalization with its main features: transparency, speed, and quality. An essential source of financial information is the financial reports prepared and published by enterprises at the end of the financial year. This information provided by the financial reporting underlies the decisions of the potential investors, creditors, and lenders (Ema M., 2015, p.809).

Therefore, financial reports must be of high quality and internationally comparable to support and strengthen businesses and achieve good market functions. This high quality could be realized if the financial reports were prepared according to the Conceptual Framework. The Conceptual Framework ensures a high degree of transparency and comparability of financial statements and improves the quality of financial information. It promotes accountability by narrowing the information gap between the providers of the capital and the people who have entrusted their money. Additionally, it contributes to economic efficiency by helping investors identify opportunities and risks worldwide and thus improving capital allocation (CF2018, SP1.5).

The Conceptual Framework is an essential document. It will become the theoretical basis for all the other specific accounting standards of the IFRS, which must be followed by every citizen who has adopted the IFRS (Zhang Y.,2011).

Moreover, the Conceptual Framework sets out the basic set of concepts for financial reporting, standard-setting. It also provides guidance for preparers in developing consistent accounting policies when no standard could be applied to a particular transaction. Furthermore, it represents assistance to users to become more broadly and better understand the standards (IASB, CF2018, SP1.1).

Finally, the Conceptual Framework can be considered the backbone of high-quality financial reporting because it organizes and drives specific rules governing financial reporting.

Historical background

The original Conceptual Framework was issued in 1989, and it was updated on several occasions, the last one has been in 2010. However, despite efforts to make it a comprehensive set of concepts, its earlier versions have lacked guidance in some areas or had conflicting guidance that was not as clear as required. Other caveats could also be mentioned like its lack of clarity, the exclusion of certain important concepts, and the being outdated to the IASB's current thinking (CF2018, BC0.10).

All these reasons make it necessary to further develop the Conceptual Framework for financial reporting so that users get useful information. Therefore, before issuing a Revised

Conceptual Framework in 2018, the IASB sought input by publishing a Discussion Paper in 2013 and an Exposure Draft in 2015.

<u>The new version of the conceptual framework:</u>

In March 2018, the IASB issued a new, comprehensive framework titled *"Conceptual Framework for Financial Reporting (Conceptual Framework)"* after five years of deliberations since the issue of the Discussion Paper in 2013. It came into force immediately for IFRS developers, and for those who are engaged in developing IFRS-based accounting policies. The main improvements introduced by the Revised Conceptual Framework are: increasing the prominence of stewardship in the objective of financial reporting, reintroducing prudence, measurement uncertainty, and substance over form in financial reporting, defining a reporting entity, improving the definition of an asset and a liability, removing the probability threshold for recognition, and adding guidance on derecognition, and finally adding a new chapter on measurement and presentation and disclosure (CF2018).

As the researcher believes a better methodology will support a better evaluation, this research undertakes the sequential following method to evaluate the Revised Conceptual Framework.

1- Present an overview of the IASB's revised Conceptual Framework, the joint work between the IASB and FASB published in March 2018.
2- Compare the 2018 Conceptual Framework with the previous frameworks to highlight the differences.

3- Discuss and evaluate the major changes in each chapter in the 2018 conceptual framework through discussing their relationship with the qualitative characteristics of useful financial information to enhance the quality of financial reporting for many reasons: -

- The qualitative characteristics of useful financial information considers a direct comprehensive measurement tool based on financial and non-financial information and disclosure included in the financial report.
- The IASB (2018) defined the quality of financial reporting in terms of the fundamental and enhancing qualitative characteristics, therefore, the quality of financial reporting is measured based on having the qualitative characteristics of useful financial information.
- Also, the qualitative characteristics of useful financial information tool is essential, as its development is determined primarily by the utility and value of information to the users of financial reports (Ichim C., & Danila L., 2016, p. 183).
- According to IASB (Exposure Draft 2008), the qualitative characteristics of useful information are one of the most critical tools used; they depend on underlying decision usefulness as a measuring tool for examining financial reporting quality.
- Moreover, Young J.,1996, (p. 490) defines the qualitative characteristic as the boundaries of what the standard-setters consider appropriate financial

reporting. This definition reflects the frequent use of qualitative characteristics in framing accounting problems by standards-setters, practitioners, and academics.

- Finally, the IASB has broadly adopted qualitative information characteristics across the 2018 updated Conceptual Framework to give a more consistent set of concepts. When the 2018 revised conceptual framework introduced the following significant changes, like as
  - Discussed the criteria for including assets and liabilities in financial statements (recognition).
  - Explained the guidance for selection of a measurement basis.
  - Discussed the guidance for whether income and expenses included in other comprehensive income (OCI) should subsequently be recycled to profit or loss.

The researcher notes that this applied methodology aligned with a legal research approach called the "doctrinal research approach" articulated by Hutchinson T. and Duncan N., 2012. At first, the term doctrinal research needs to be explained. The word doctrine stems from the Latin noun doctrine, which means instruction, knowledge, or learning. The legal literature explains that doctrinal research questions the concepts, principles, and rules developed in practice and collectively referred to as doctrines (Hutchinson T., and Duncan N., 2012, p 84). Also, Chynoweth P., 2008, (p. 678) states that the doctrinal research approach involves a process of analysis rather than data collection. Besides, this methodology was used by accounting researchers by Van Aardt van der Spuy, P., (2015) to assess standard-setting issues. Coetsee D. (2021) has also used the same methodology to evaluate whether the liability's definition underlying concepts developed in the CF2018 of the IASB are robust and sufficient enough to create a conceptual foundation to identify, recognize, measure, and derecognize the liabilities. Mthembu D. (2018) further uses the doctrinal research to gauge the alignment between the concepts introduced in the CF2018 and principles contained in IFRS 9 and the CF2018 and IFRS, IAS 32.

According to Hutchinson T., and Duncan N., 2012, (p101), Doctrinal research is defined as "*Research which provides a systematic exposition of the rules governing a particular legal category, analyses the relationship between rules, explains areas of difficulty and, perhaps, predicts future developments.*" Thus, this definition describes four steps to apply doctrinal research

1- Systematic exposition
2- Analysis of the relationship between rules
3- Explanation of the areas of difficulty
4- Prediction of the future developments

As can be seen, accounting academics are similar to legal academics since both academic disciplines seek to identify problems or issues in the current application of legislation (Conceptual Frameworks and Accounting Standards). Additionally, both academic disciplines strive to provide helpful criticism and informed recommendations for improvements through an appropriate collaborative process

(Van Aardt van der Spuy, P., 2015, p. 812). The concepts in the Conceptual Framework and the principles and rules in the IFRSs influence accounting practice. (doctrines in legal research) (Coetsee D., 2021, p.21). As a result, doctrinal research is considered an appropriate methodology for this chapter's application. The researcher can prove that the doctrinal research approach closely aligns with an applied methodology by describing the steps of each approach in the table (1).

Table (1)

Description of the steps of doctrinal research approach and chapter research approach

Doctrinal research approach	Chapter research approach
• Systematic exposition	• Present an overview of the IASB's revised Conceptual Framework, the joint work between the IASB and FASB, published in March 2018.
• Analysis of the relationship between rules	• Compare the 2018 Conceptual Framework to the previous framework to highlight the differences.
• Explanation areas of difficulty	• Discuss the major changes in each chapter in the 2018 Conceptual Framework.
• Prediction future developments	• Evaluate the major changes through discussing their relationship with the qualitative characteristics of useful financial information to enhance the quality of financial reporting.

Source: the researcher

The research approach is consistent with the doctrinal approach, as shown in the previous table. Therefore, the researcher applies it to evaluate the Revised Conceptual Framework based on analysis and interpretation. Analysis helps to understand the data by describing general trends and noting differences and similarities among data points. While, Interpretation links data to the objectives they are supposed to measure, explores the relationships between multiple measures of an educational purpose, qualifies, amplifies, draws conclusions, and evaluates. The result of the analysis and interpretation is the contribution to the accounting literature.

1- The Objective of General-Purpose Financial Reporting

The Conceptual Framework provides an internally consistent system of concepts directly related to the objective of financial reporting, as stated in the summary and introduction of the revised framework. Financial reporting aims to provide a foundation for the framework, which all the framework's financial statements have to logically follow and support its fulfillment (Kabalski P., 2009, p.97).

This section aims to evaluate chapter one of the Revised Conceptual Framework 2018 dealing with financial reporting objectives to assist in developing a comprehensive, coherent, communicative, confident, and well-constructed basis for financial reporting. Thus, the researcher tries to make a comparative study highlighting the fundamental changes between the 2018 Conceptual Framework and the previous versions of the Conceptual Framework of financial reporting 1989 and 2010.

1.1 The comparison between the Revised Conceptual Framework with the previous the Conceptual Framework

Table (2)

The comparison of the objective of financial reporting

Issues	Framework (1989)	Conceptual Framework (2010)	Conceptual Framework (2018)
Title	The objective of financial statements	The objective of general-purpose financial reporting	The objective of general-purpose financial reporting
Objective	financial statements aim to present information about the financial position, performance, and changes in the financial position of an entity which is useful to users in making economic decisions (IASC1989, par.12).	General-purpose financial reporting aims to provide financial information about the reporting entity that will assist potential and existing investors, creditors, and lenders, in making decisions about providing resources to the entity. Those decisions include buying, selling, or holding equity and debt instruments and providing or settling loans and other types of credit (CF2010, OB2).	General-purpose financial reporting aims to provide about reporting entity that will assist potential and existing investors, other creditors, and lenders in making decisions about providing resources to the entity. Those decisions include providing or settling loans and other types of credit, as well as buying, selling or holding stock and debt instruments, **and exercising rights to vote on, or otherwise influences, management actions that have an impact on how the entity's economic resources are used** (CF2018, par.1.2).

source: the researcher

1.1.1The following points constituted the major changes from the original CF of the IASB/IASC, manifested in the

IASC1989 to the joint version project, manifested in the CF2010:

1- In the CF2010, the IASB established an objective of financial reporting and not just financial statements defined by the IASC1989.
2- In the IASC1989, the user group was "a wide range of users" that includes " management, employees, present and potential investors lenders, suppliers, and other trade creditors, customers, governments and their agencies and the public" (IASC1989, par.9) without any focus. But in the CF2010, The IASB has narrowed down the scope of target users of financial reporting to "existing, and potential investors, lenders, and other creditors are primary users" (CF2010, OB2).
3- The most notable difference in the objective of financial reporting in the CF2010 was Stewardship. In the CF1989, Stewardship was mentioned as a separate objective next to decision usefulness (IASC1989, par.14). On the other hand, the CF2010 stewardship was not included as an independent objective of financial reporting; the board automatically combined it in such an objective. The CF2010 mentioned that to form assessments of future cash flow prospects, information is needed about "how efficiently and effectively governing board, and the entity's management has performed their responsibilities to use the entity's resources" (CF2010, OB4). The board opted against using the term stewardship because there would be difficulties in translating it into other languages (CF2010, BC1.28).

1.1.2 The following point constituted the major change from the joint version project, manifested in the CF2010 to the revised CF2018:

The stewardship concept is taken back into a Conceptual Framework. Therefore, this might suggest that IASB has re-established the situation before 2010. The reason for this is that users' expectations about return would depend not only on their assessment of probable cash flows but also on their evaluation of management stewardship (Kejriwal A., 2020, p.2634). The researcher discusses the stewardship concept in more depth in the following paragraphs, but before embarking on the changes in the stewardship, the researcher first identifies the definition of stewardship, its importance, and how it affects financial reporting

2- Definition of Stewardship Concept:

According to the previous IASB Conceptual Framework 1989, "*financial statements also [i.e., in addition to providing information that will assist in making economic decisions] show the results of the stewardship of management or the accountability of management for the resources entrusted to it. Those users who wish to evaluate the stewardship or accountability of management do so that they make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management*" (IASC1989, Par.14).

3- Objective of Stewardship Concept:

According to (PAAinE, 2007), (CF2018, par.1.23), (CF2010, OB12), Stewardship objectives are as following

- It assesses management's competence and honesty, including the success of their strategy in managing the business.
- As owners of the business, it provides shareholders with the information they need to decide whether to reappoint or replace management, determine the appropriateness of management compensation, and make decisions about management remuneration and tenure.
- It presents information that enables shareholders to review the company's performance in light of the risks management took to obtain the results and assist them in making decisions about the future direction of the business.
- It provides past information (for example, the transactions entered into, the decisions made, and the policies implemented) in a manner that allows the entity's past performance to evaluate in its own right, rather than solely as part of an assessment about likely future performance. It's also about disclosing information about how the entity has positioned itself for the future.
- It provides information that enables shareholders the right to vote on management actions. It, therefore, is interested in how effectively the entity's directors and management have utilized the assets entrusted to them efficiently and profitably.
- It presents information about protecting the entity's economic resources from unfavorable economic factors such as inflation, technological and social changes, and

compliance with laws, regulations, and contractual provisions.

4- Stewardship in the IASB's framework:

The following table discusses the highlights change of stewardship in the IASB's Discussion Paper 2013, Exposure Draft 2015, and Conceptual Framework 2018.

Table (3)

Stewardship in IASB's framework

Issue (stewardship)	Feedback	The board's response in the 2018 revised Conceptual Framework
The IASB removed the term stewardship from the Conceptual Framework in 2010 because of translation difficulties and decided to focus singularly on resource allocation decisions as to the single objective of financial reporting (CF2010, OB2). While stewardship concerns "information about management's discharge of responsibilities" are mentioned in the framework as a means to "assess an entity's prospects for future net cash inflows"	Many stakeholders disagreed with the IASB's original proposal not to reintroduce the term stewardship. They argued that the assessment of management's stewardship encompassed the objective of financial reporting. (e.g. (Whittington 2008 argued that accountability entails more than the prediction of future cash flows), (Lambert R., 2010, he argues that, in fact, accounting standard setters, especially the	In the 2018 conceptual framework, the IASB confirmed the approach proposed in the 2015 Exposure Draft. Hence, the 2018 Conceptual Framework gave more prominence to the importance of providing the information needed to evaluate management's stewardship and information required to assist users in assessing the prospects for future net cash inflows to the entity. Both types of information are

(CF2010, OB4), they do not state as a separate objective. When the IASB resumed work on the Conceptual Framework in 2012, it proposed that the chapter on financial reporting objectives not be changed since a fundamental reconsideration of this chapter would not result in major changes or would have a significant impact on the remaining chapters. Also, it would be time-consuming and might lead to unnecessary delays in finalizing the revised Conceptual Framework (DP2013, par. 9.2). As a result, the 2013 Discussion Paper did not suggest to reintroduce the term stewardship. Even though some respondents' responses to the Discussion Paper indicated that some changes were expected	FASB and the IASB, have explicitly moved away from citing stewardship as a primary objective of financial reporting. Additionally, he argues that a casual examination of financial statements would not conclude that its primary role is to support efficient contracting). (Kothari S. et al., 2010, argue that the efficient allocation approach is a broader objective that includes the need to provide value-relevant information to providers of capital but also includes rise to demands for information about performance and stewardship in addition to security valuation information). Several stakeholders supported the suggested reintroduction of the term stewardship and the concept's greater prominence in the 2015 Exposure Draft. However, some stakeholders suggested that stewardship and	required to meet the overall objective of financial reporting, presenting useful information for making resource allocation decisions. The IASB rejected the approaches that identified the information to help assess management's stewardship as part of the objective of financial reporting or as an additional and equally prominent objective because evaluating management's stewardship is not a goal in itself. It is an aspect to consider while making resource allocation decisions. (CF2018, BC1.35(A)), and introducing an additional objective of financial reporting could be confusing. The IASB further highlighted that resource allocation decision include voting on or otherwise influencing

(CF2018, BC1.2). So that the IASB published the Exposure Draft in May 2015. The suggested revision to Chapter 1 of the Conceptual Framework through Stewardship was expressly highlighted and given more focus as part of the financial reporting objective.	decision-making are parallel objectives with different emphases that should be defined as separate objectives. (Gore, R., & Zimmerman, D. 2007).	management's activities that affect the entity's economic resources, buying, selling, or holding equity and debt instruments, and giving or settling loans and other types of credit.

Source: the researcher

As the preceding analysis shows, the researcher argues that stewardship information is essential because stewardship was historically one of the significant reasons for accounting's existence and is still shaping the accounting practice (Pelger C., 2016, p.51). Therefore, it should be encompassed in the overall objective of providing useful information for making resource allocation decisions, and not as part of the objective of financial reporting or as an additional and equally prominent objective for many reasons

- One clear objective enables standard setters and preparers to assess which practices from a wide range of competing options and provide a coherent Conceptual Framework.
- Also, one clear objective leads to less complex, more understandable, and comparable financial information.

Therefore, it seems essential that the objective be clearly and precisely specified.

- Two or more separate objectives will make standard-setting unmanageable, particularly as to user's needs conflict.
- The stewardship objective and decision usefulness are interdependent and mutually consistent because future information is likely to be evaluated based on past performance compared to previous forecasts (barth M., 2014).
- The decisions on resource allocation require forward-looking and backward-looking performance measures that indicate the necessity and direction of corrective action. (Elerle B., Schultze W., 2013 p. 155)
- The stewardship information about the past can indeed be helpful to investors in assessing future cash flows (Pelger C., 2016, p.61). Hence, this means that the assessment of the management stewardship does not represent an end in itself. It is just an input needed in making resource allocation decisions (CF2018, BC1.35(A)).
- The provision of information for assessing the stewardship function is an objective broader than decision usefulness, which is probably confusing financial reporting with corporate governance.
- Furthermore, a casual examination of financial statements would not conclude that its primary role is to support efficient contracting (Lambert R., 2010).

5- Evaluation of Stewardship concept:

Based on the preceding analysis, the researcher introduces how to evaluate the stewardship concept by clarifying the relationship with qualitative characteristics to improve the quality of financial reporting.

- There is an interrelated relationship between Stewardship and relevance availability (in both predictive and confirmatory). Stewardship leads to the provision of all the information that could influence users' decisions of financial reports. It is increasing the availability of relevance, which relates to the ability to make a difference in a decision of financial reporting users.
- There is an interrelated relationship between stewardship and completeness as an aspect of faithful representation. Stewardship leads to the provision of all the information that can understand the phenomenon being depicted. Therefore, ensure there is an appropriate emphasis on the company's performance, thus increasing the availability of faithful representation related to completeness.
- There is an interrelated relationship between stewardship and the free from error as aspects of faithful representation. Stewardship includes monitoring the actions of the managers and assessing the adequacy of management compensation so that managers perform their responsibilities without errors or omissions in the description of the phenomenon. It is increasing the availability of faithful representation, which is related to freedom from error.

- There is an interrelated relationship between stewardship and neutrality (Prudence) as an aspect of faithful representation because prudence leads to counteract management's natural optimistic bias. It is increasing the availability of faithful representation, which is related to neutrality.
- There is an interrelated relationship between stewardship and understandability. One of the stewardship's objectives leads to providing all the information that could make the financial reports easy to classify, characterize, and present information clearly and concisely. In its turn, this increases the availability of understandability.
- There is an interrelated relationship between stewardship and comparability because stewardship emphasizes the entity's past performance and prospects. Therefore, it helps to make comparisons across financial statements in judging the entity's performance over the years, increasing comparability availability.
- There is an interrelated relationship between stewardship and verifiability because stewardship's objectives are to protect the entity's economic resources from unfavorable economic factors, ensure that all laws, rules, and contractual conditions are followed, and carefully verify the recognized aspects of the financial reports. All of these factors, whether direct or indirect, increase the availability of verification.
- There is an interrelated relationship between stewardship and timeliness because stewardship's objective is to provide information on time, thus increasing availability.

6- Conclusion

The stewardship concept should be included in the overall aim of providing useful information for making resource allocation decisions, rather than as part of financial reporting or as an additional and equally prominent objective. As a result, the IASB has succeeded in developing a more precise and more elaborate stewardship concept with a focus on comparability and understandability.

The stewardship concept improves the quality of financial information since it has an interrelated relationship with the qualitative characteristics of useful financial information. As a result, the quality of financial reporting has improved.

Consequently, the researcher concluded that the methodology that used in this research assists in evaluating the stewardship concept in a consistent and directed manner.

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