

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

28 January 2002

Dear Sirs

**PROPOSED PREFACE TO INTERNATIONAL FINANCIAL REPORTING
STANDARDS**

We welcome the opportunity to comment on the Exposure Draft of a Proposed Preface to International Financial Reporting Standards. We believe that a new Preface is an essential foundation for International Financial Reporting Standards.

We strongly believe that the bold type/plain type distinction should be retained, as we consider this helpful to all parties. We are concerned that abandoning this approach might signal a move away from principles-based standards towards a rulebook approach, under which standards become so excessively rigid and inflexible that they leave scope for poor accounting practice. Furthermore, we believe that bold/plain type standards are clearer to understand and hence facilitate appropriate application, thus enhancing the credibility of the standards and of the standard-setter. We also consider that the significance of bold and plain text should be clarified.

We also believe that the exclusion of private sector not-for-profit entities from the proposal scope of IFRSs exposes a significant gap and urge the IASB to explore ways of enabling such entities to produce IFRS accounts.

We respond in detail to the questions raised in the Exposure Draft in the appendix. If you would like us to amplify our comments, please contact Robert Carroll on 0870 991 2210.

Yours faithfully



Grant Thornton

SCOPE AND AUTHORITY

Question 1

The Board states in paragraph 9 of the proposed Preface that IFRS are designed to apply to the general purpose financial statements of all profit-oriented entities, as defined. The Board also says that although IFRS are not designed to apply to not-for-profit activities in the private sector, public sector or government entities with such activities may find them appropriate. It notes that the Public Sector Committee of the International Federation of Accountants (PSC) is preparing accounting standards for governments and other public sector entities, other than government business enterprises based on IFRS.

Is the Board's proposed scope clearly defined and appropriate?

In our view, the Board's proposed scope is clearly defined. We believe that it is appropriate for the primary focus of the Board's work to be on the financial statements of profit-oriented entities. However, in some jurisdictions, entities in the non-governmental not-for-profit sector may wish to, or be required to, prepare true-and-fair financial statements in accordance with national accounting standards. Such entities may include charities, professional bodies, trade associations and educational establishments, whose financial statements may be the subject of considerable public interest and scrutiny. As IFRS become more widely accepted globally, and as the demand for transparency in financial reporting becomes more pervasive, major international charities or other non-business private sector entities may wish to publish IFRS financial statements.

If the Board's standards are focused on profit-oriented entities, it may not be practicable for private sector not-for-profit entities to apply IFRS without adapting some requirements to suit the different characteristics of such entities. If this were to be the case, it might not be possible for not-for-profit entities to produce IFRS accounts, given the all-or-nothing compliance requirement set out in IAS I paragraph 11 and referred to in paragraph 16 of the Draft Preface.

We therefore believe that the exclusion of private sector not-for-profit entities from the scope as set out in paragraph 9 of the Draft Preface is a notable gap, and we urge the IASB to explore the possibility of enabling such entities, in particular major international charities, to produce IFRS accounts.

Question 2

The Standards issued by the IASB include paragraphs in bold italic type and paragraphs in plain type. The Board is concerned that some constituents may have interpreted the bold italic paragraphs as having more authority although IASB commentary has suggested otherwise. Paragraph 14 of this proposed Preface states that paragraphs in bold italic type and plain type have equal authority and sets out the Board's intention to discontinue the use of different type styles. The Board intends to provide, in IFRS, robust and useful guidance to illustrate the basic principles in each Standard including a detailed Basis for Conclusions

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Do you agree with these proposals? Why or why not?

We note the Board's concern that some constituents may have interpreted the bold italic paragraphs as having more authority than those in plain type. However, we consider that this might have resulted from the wording of the rubric at start of the IASC's standards, which includes the following text:

“The standards, which have been set out in bold italic type should be read in the context of the background material and implementation guidance in this Standard...? (source: IAS 1 (revised 1997))

In our view, the use of the words “background” and “guidance” may give the impression that the plain text does indeed have less authority than the bold text, and that such text does not constitute requirements, even though the words “in this Standard” indicate that all text forms part of the Standard. The normal meaning of “guidance” is advice or information aimed at solving a problem or difficulty and that of “background” is explanatory or contributory information (source: Concise Oxford Dictionary, tenth edition). By contrast a requirement is an instruction to do something or an expectation that something will be done. We note that the general compliance requirement in IAS 1, paragraph 11, includes the words “comply with the requirements of each applicable Standard”. If the impression is given, albeit unintentionally, that some material in Standards constitutes guidance rather than requirements, it is easy to see how this may cause difficulty.

We support the Board's proposal that paragraphs in bold italic type and plain type should have equal authority. However, we believe that there is merit in retaining bold and plain text, though the exact purpose of each should be defined more clearly. We believe that this approach has proved itself in practice in jurisdictions where it has been adopted. In the United Kingdom, for example, the introduction of bold/plain text formatting has assisted users' understanding of standards. As standards deal with ever more complex issues, such aids to the user increase in importance: they feed through to the proper application of the standards and hence to the credibility of the standards themselves and of the standard-setter. We believe that this is no time to be discarding bold text.

In addition, we consider that the bold/plain text distinction provides a discipline for standard-setters in that the plain text material must support and be consistent with that set out in bold, rather than each component of the text representing a stand-alone rule.

We suggest that bold text should be used for principles and requirements (including disclosures) and that plain text should be used for definitions and explanatory material. It should also be made clear that the plain text material forms part of the requirements insofar as it assists in interpreting or applying those requirements. Where additional illustrative material is included which is not intended to form part of the requirements, this should be indicated clearly.

We understand that the European Parliamentary legislative draftsmen are using the bold/plain text approach in the EC's Ethics Recommendation, with the bold text being capable of legal definition, and therefore included in the primary legislation, and plain text

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(where precise legal definition is not always possible) retained as guidance in a Schedule to the main legislation. This implies that lawyers understand that bold and plain text can have equal importance but that there is a need for both. In the light of this and of the use of a bold/plain text approach in pronouncements of standard-setters in related disciplines (such as audit) we can see no justification for the Board's proposed abandonment of this approach.

We are concerned that, if the bold/plain distinction were to be abandoned, this might signal a move away from principles-based standards towards a rulebook approach. This creates a danger that standards may become so excessively rigid and inflexible that they leave scope for poor accounting practice, such as preparers arguing that they can do anything so long as there is no specific rule against it.

We consider that it may be appropriate for the Board to revise the wording at the start of all IASs that remain extant and reconsider the wording of IAS I, paragraph 11 to ensure that it is consistent with the revised Preface and that its meaning is unambiguous. We suggest that the rubric should include a requirement to read the Standard not only in the context of the Preface but also in the context of the objective of the Standard and the Framework for the Preparation and Presentation of Financial Statements. There may also be merit in including in the Preface a statement that it is important to be guided by the spirit and reasoning behind Standards, as set out in the Basis for Conclusions, the Framework and any other explanatory material, when applying them.

Finally, we note that the use of bold and plain text in existing standards does not always appear to be consistent. For example, in IAS 32, the plain text includes material which clearly represents specific disclosure requirements, without it which the material in bold cannot be applied consistently (for example paragraph 60 relating to interest rate risk disclosures). Along with the clarification of the import of bold and plain text, the IASB may wish to use the opportunity to consider improving the consistency with which bold and plain text is used, as part of its revisions project.

DUE PROCESS

Question 3

In paragraphs 19 and 20 of/Ins proposed Preface, the Board sets out the due process normally expected to be followed in issuing Standards and Interpretations.

Are the Board's proposals appropriate? Are any proposed steps unnecessary? Are there additional steps that should be incorporated?

We consider that the Board's proposals are appropriate and that the proposed steps are necessary. However, we believe that it is essential that the timetable for the process makes proper allowance for consideration and discussion of new proposals, and that adequate time is given for the implementation of new requirements once they have been issued in final form.

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Our concern with regard to this mailer has been heightened by recent experience of new SIC Interpretations, where the consultation period for the drafts was very short and the effective dates for several final Interpretations coincided with the date on which they were published on the IASB web site.

We acknowledge the need for IASB to progress its agenda with some urgency but we believe that this should not be at the expense of allowing insufficient consultation or implementation time. In our view, the period between publication of a draft IFRS and the comment deadline should be at least three months, with at least two months being allowed for a draft Interpretation. A final IFRS or interpretation should be published prior to the first day of the accounting period for which it becomes effective, save where it deals only with year-end disclosure matters, in which case a shorter period would be acceptable. An Interpretation should become effective immediately on publication only in exceptional circumstances where it is issued to deal with an abuse of an existing requirement.

GENERAL

Question 4

Are there any other matters that should be addressed in the Preface to IFRS?

We have not identified any other matters that should be addressed.