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Berlin, 21. Februar 2002

Dear Sirs,

Re.: Preface to International Financial Reporting Standards – Exposure Draft

We would like to thank you for the opportunity to comment on the proposed Preface. In particular, we have the following comments, taking into account comments made by our constituents:

Question 1: Scope of IFRS

We agree to the definition of the scope of IFRS.

We recommend to move paragraph 18 from the Preface into the Conceptual Framework because this specific reference may restrict the flexibility of the Preface.

Although it might not be a matter to be addressed in the Preface, we suggest to consider how IASB could support the possibility of applying IFRS by non-profit entities in the private sector. Since the Public Sector Committee of the International Federation of Accountants (PSC) is developing accounting standards – based on IFRS - for governments and public sector entities with not-for-profit activities as well, there is a gap for private non-profit entities. One comment letter sent to us indicates an interest of private non-profit organisations in applying IFRS in the near future.



Question 2: Proposed discontinuing the use of different type styles

GASB does not agree with discontinuing the use of different type styles for the following reasons:

- Using the different type styles in IAS *and* IFRS results in uniform manifestation of the Standards. The proposed use of plain type only could imply that IASB wishes to change the structure of standards which is not the case. Compliance with IAS and IFRS as well has to be understood as compliance with all paragraphs of all standards.
- The distinction between general principles and the specific application of the standard for particular cases improves the ease of reading and understanding the standards.
- Taking into account the growing number of first-time-applicants, the fast identification of general principles is essential to get an overview and to understand how more detailed requirements derive from these principles.

We cannot see that using different type styles necessarily results in considering bold italic type paragraphs with greater care than paragraphs in plain type. Nevertheless, we support the statement in paragraph 14 of the Preface that all paragraphs have equal authority. The Preface is the right place for clarifying the equality of paragraphs authoritatively.

Concluding, we propose eliminating the sentence about issuing standards without this distinction but retaining the next sentence about the reading of individual standards. The first sentence should be amended to read: “The Standards issued by the IASC *and the IASB* include...”.

Question 3: Description of the Due Process

In our view the due process as set out in paragraphs 19 and 20 appears appropriate. However, one of our constituents suggested to amend the sequence in paragraph 19 due to the chronological order of the due process:

- (f) *consideration of all comments received on discussion documents;*
(former content of paragraph 19 g)
- (g) *publishing for public comment an Exposure Draft approved by at least eight votes of the IASB, including any dissenting opinions held by IASB members and a basis for conclusions;** (former paragraph 19 f)
- (h) *consideration of all comments received on Exposure Drafts;** (former content of paragraph 19 g)



The former paragraph 19 (h) and (i) would become 19 (i) and (j) without any amendments.

Some of our constituents remarked on the importance of close co-operation between national standard-setters, their advisory groups on the national level and the respective advisory group of the IASB in the early standard-setting process as set out in paragraph 19 (b), (c), and (d).

Additionally, we suggest that in practice the comment periods on discussion papers and Exposure Drafts should not be shorter than three months. Comment periods shorter than this make it almost impossible for national standard-setters to collect and consider comments made by their constituents.

Question 4: Gaps in the Preface (General)

We have some additional but secondary points:

- Paragraph 6 (a) should also include “*applicable*” global accounting standards. The objectives of the IASB concerning the standard setting should enumerate this characteristic of standards to underline the importance of applying the standards in practice.
- Since translations of IAS are used more frequently, and taking into account the proposed regulation of the European Parliament and the Council on the application of IAS we propose to state more clearly in paragraph 24 that the English text of IAS / IFRS is authoritative. Especially in cases of doubt which of different language versions might be the best one there should be a clarification in the Preface that the English version is authoritative in all cases.
- We suggest to reconsider the resolution passed at IASB ‘s meeting on April 20th 2001 that IAS issued under previous Constitutions continue to be applicable without renaming them to IFRS. Thus, the Preface itself has to refer to certain IAS, for example IAS 34 in paragraph 11, and IAS 1 in paragraph 16. Taking into account that the Preface as a central document should be amended less frequently than the Conceptual Framework or Standards based on the Preface, it could be helpful to avoid the reference at least to IAS 34 in paragraph 11.

In conclusion, the GASB supports and welcomes the proposed Preface.

Yours sincerely,

Liesel Knorr

Preface to International Financial Reporting Standards

– Synopsis of the Comment Letters (sent to the German Accounting Standards Committee) –

All comment letters sent to us are written in German. We enclose a short analysis in English and the original letters.

Comment letters:

No.	Name	Industry
1	Controller Verein	Industry
2	Internationaler Tierschutz-Fonds (IFAW) GmbH	Non-for-profit organisation
3	Gerling Versicherungs-Beteiligungs-AG	Insurance
4	Bundesverband Öffentlicher Banken (VÖB)	Banking
5	Metro AG	Commerce

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?

No.	Name	Answer	Comment / remark
1	Controller	yes	
2	IFAW	no	<p>The work of the PSC addresses governmental and other public sector not-for-profit entities. Thus, there is a lack of standard setting for private non-profit entities.</p> <p>Proposal: Abolition of the IFRS restriction to profit-oriented entities, because there is a difference in business objectives only but no difference in the accounting principles.</p>
3	Gerling	yes	The criterion of profit-orientation is appropriate and easy to understand.
4	VÖB	yes	<p>Paragraph 9, sentence 1 defines the application of IFRS to financial statements of profit-oriented entities. However, paragraph 9 sentence 4 etc. might allow the interpretation that not-for-profit entities of the public and private sectors can apply IFRS. This interpretation gives national governments the opportunity of requiring all not-for-profit entities to apply IFRS.</p> <p>Thus, concerning governmental and other public sector not-for-profit entities, the Preface should state that standards of the Public Sector Committee take precedence over IFRS.</p>
5	Metro	yes	

Conclusion:

Four comment letters agree to the definition of the scope of IFRS. One comment letter wishes private not-for-profit entities to be included in the regular scope of IFRS applyers.

Question 2:

The Standards issued by the IASC 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 IASC 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.

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

No.	Name	Answer	Comment / remark
1	Controller	no	There should be an explanation of the importance of paragraphs in bold italic type and those in plain type.
2	IFAW	-	
3	Gerling	no	Many enterprises just started studying or applying IAS. During this period of first-time-application, it is quite difficult to inform themselves about the extensive regulations of IAS. In this context, using paragraphs in bold italic type is essential to get an overview. Applying IAS, we never assumed any hierarchy of the paragraphs.
4	VÖB	no	<ul style="list-style-type: none">• The different style types clarify the structure of a topic dealt with in a standard. Clarifying the equal authority of all paragraphs is better done by an according statement in the Preface.• Using different style types in IAS and IFRS at the same time would confuse the applicants.• The German Accounting Standards have the same different style types as IAS. The German Accounting Standards Committee must change the style types of GAS without understandable necessity.
5	Metro	no	Continuing the use of the „old“ format means a uniform format of the IAS and IFRS as well, and eases the distinction between general principles and more specific instructions and comments. Irrespective of their style types, all paragraphs have equal authority.

Conclusion:

All comment letters do not agree with discontinuing the use of different style types.

Question 3:

In paragraphs 19 and 20 of this 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?

No.	Name	Answer	Comment / remark
1	Controller	yes	
2	IFAW	yes	At first glance the process is long and complicated.
3	Gerling	yes	Step 19 e (publishing for public comment a discussion document) should be required, because the possibility of influencing the development of an Exposure Draft is higher than influencing an approved Exposure Draft.
4	VÖB	Partial yes	<ul style="list-style-type: none">Concerning the Steps (b) to (d), the importance of the national standard setters must be clarified, especially the close co-operation between their advisory groups and the respective advisory group of the IASB. The bad co-operation in the early standard setting process was shown in the past by the discussion paper of the Joint Working Group on Fair-Value Accounting of Financial Instruments.Because of their practical and timely sequence in the due process, steps (f) and (g) should be amended: (f) <i>consideration of all comments received on discussion documents</i>; (g) former step 19 (f); (h) <i>consideration of all comments received on Exposure Drafts</i>.Similar to the Basel II Committee, the IASB must approve Exposure Drafts and Standards by unanimous vote, because the European Union is not represented in the IASB sufficiently. Disregarding the EU member states could result in an "European version" of IFRS in the future.In the future the comment period must always be long enough, because comment letters of parent organisations require the collection and consideration of all comments made by their constituents first.
5	Metro	yes	<ul style="list-style-type: none">It should be stated clear that an „approval by eight of the fourteen members“ is required for the approval of an IFRS and an Interpretation. At the moment reading the Constitution is necessary to realise that the two “part-time members“ of the IASB have full voting right.Taking into account the Constitution too, it should be questioned whether approval by only 57 % (8 of 14 members) is sufficient. The FASB requires for the approval of SFAS at least 71 % (5 of 7 members).

Conclusion:

All comment letters agree with the proposed due process in principle.

Two comment letters criticise the requirements of approval to be too low. Closer co-operation between national standard setters and IASB, especially concerning discussion papers is recommended.

Question 4:

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

No.	Name	Answer	Comment / remark
1	Controller	no	
2	IFAW	-	
3	Gerling	yes	All standards should be named IFRS by renaming IAS issued under previous Constitutions.
4	VÖB	yes	<ul style="list-style-type: none">• Para. 6 (a) should include “applicable in practice“ as an objective.• Para. 7, sentence 1 should refer to para. 16 and 18 in order to avoid (mis-)interpreting IASB’s intention to accept the application of “IFRS-light” too.• Para. 7, sentence 3 should include the amendment and withdrawal of IAS and SIC.• Para. 10 should extend the application of IFRS to interim financial statements and condensed financial statements for an interim period.• Because of the principle of materiality and cost benefit reasons, para. 22, sentence 1 should limit the retrospective application of new or revised standards to a certain date before the date of issue.
5	Metro	no	