



The Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

15 February 2002

Dear Sir

Preface to International Financial Reporting Standards

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the above exposure draft which was considered by ACCA's Financial Reporting Committee at a recent meeting. I am writing to give you their views.

General matters

We agree that a new preface to the standards is required.

The Preface is to International Financial Reporting Standards (IFRS). We appreciate that the change from International Accounting Standards (IAS) to IFRS better describes the product and reflects the major change in the issuing body that was put in place last year. We note, however, that the change will have a negative effect on a "brand" which has been developing a considerable presence and profile around the world.

Specific matters raised for comment

Q1. 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



The Association of Chartered Certified Accountants

29 Lincoln's Inn Fields London WC2A 3EE United Kingdom

tel: +44 (0)20 7396 7000 fax: +44 (0)20 7396 7070 www.accaglobal.com

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?

We are generally content with the scope for these standards as proposed by the Board. Paragraph 9 perhaps enters into too much detail, and the third sentence about mutual organisations might be deleted.

We note that at a global level, the accounting for private sector not-for-profit entities (such as charities and foundations) will not be covered. We accept that, in some instances, not-for-profit orientation could make a difference to how items are accounted for. IASB should in some way address this gap, and either indicate the extent to which its standards are suitable for use by not-for-profit entities, or ensure that some other body does.

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?

We agree that all paragraphs in standards should carry equal authority, whatever the typeface in which they appear. The revised Preface should make this point clearly, and the introductory sections of each IAS should be altered accordingly.

Future IFRS should continue to be written in the same way, with principles in bold type and explanatory text in ordinary typeface. We think that there are the following advantages in retaining the distinction

- Making the standards (which are of increasing length) easier to read
- Reinforcing the principles-based nature of the standards, by requiring the IASB to set out the basic principles first, followed by the explanatory or illustrative text
- Reducing the need for repetition if explanatory text were to be provided separately

- IASB's proposals to provide basic principles with separate illustrative guidance might make the latter easier to overlook.
- Retaining consistency with other related sets of standards, for example International Standards on Auditing.

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?

In setting out the IASB's due process minimum time limits should be specified for comments on discussion papers, on exposure drafts of standards and on draft interpretations. Such minimum periods should allow sufficient time for translation and for the due process within each organisation that wishes to comment. A minimum period of four months for exposure drafts for standards seems workable, with a shorter period of say three months for draft interpretations.

Public hearings, a voluntary part of the due process in paragraph 21 (h), do not seem very appropriate for a global body such as IASB. To be a valid part of due process, they would have to be held in a reasonable spread of locations. The question of translation clearly would also be an issue. The results of public hearings should specifically be noted as of lesser status than the written comments sent in.

The balance between costs and benefits is part of the IASB's conceptual framework. IASB should, therefore, be obliged to make an impact assessment of proposed new standards to consider in a rigorous way the costs and benefits of proposals it puts forward. This could be part of the field testing referred to in 21(h).

On the due process of the interpretations committee, we see no reason why the requirements should be very much less, except in regards to the timeframe in which it may need to work. The publication of dissenting opinions, for example, should be required. On the voting majorities we assume that no abstentions are expected. We note that theoretically an interpretation could be passed with as few as four votes in favour.

Question 4: *Are there any other matters that should be addressed in the Preface to IFRS ?*

The current version of IAS1 on the presentation of financial statements contains some important general principles which would be appropriately included in the Preface. We note that IAS1 is included in the list of standards in the Board's improvements project. It is difficult to comment definitively on the Preface when the final shape of IAS1 revised is not clear. For example, IAS1 deals with the overriding requirement to present fairly, and also with the hierarchy/precedence of guidance. This hierarchy might currently include standards, interpretations, the questions and answers concerning IAS39, appendices to standards, the framework and national standards.

The Preface should contain a statement of the general principles-based nature of the IFRS, making it clear that a complete set of rules covering every circumstance is not intended. Preparers and auditors must use their judgement to assess that the principles set out in the standards have been applied, even if there is not a specific reference to the situation in their particular case. There is a logical link here also to the hierarchy of guidance which should be followed in applying those general principles, and also to the overall obligation for the financial statements to give a fair presentation of the performance and position of the enterprise that we have noted above.

Translations of IFRS are going to become of increasing importance. Paragraph 24, however, does not at present describe adequately the due process for translations of the IAS and their approval or licencing by the IASB.

If there any matters arising from the above on which further clarification would be of help, please get back to me.

Yours sincerely

Richard Martin
Secretary to the Financial Reporting Committee

