

## STAFF PAPER

<b>Project</b>	<b>Preface to IFRS Standards</b>		
<b>Paper topic</b>	Updating the Preface to IFRS Standards		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board® (“the Board”) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standard do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB *Update*.

### Purpose and structure of the paper

1. The *Preface to International Financial Reporting Standards* (Preface) contains sections on:
  - (a) the objectives of the Board;
  - (b) the scope and authority of the Standards;
  - (c) due process;
  - (d) timing of application of the Standards; and
  - (e) the language of the approved text (English).
2. In this paper we propose that the contents of the Preface should be reduced:
  - (i) to remove duplication of information more properly covered by the *IFRS® Foundation’s Constitution* (Constitution) and the *IFRS Foundation Due Process Handbook* (DPH); and
  - (ii) to prevent important information being obscured by non-relevant content.
3. The paper consists of the following sections:
  - (a) background to the Preface;
  - (b) staff recommendation; and

- (c) next steps.

## **Background to the Preface**

4. Following the approval of the Preface in April 2002, an introduction that refers the reader to the Preface and to the *Conceptual Framework* was added to each Standard<sup>1</sup>:

... IFRS X should be read in the context of its objective and Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. ...

5. The Preface was inherited from the International Accounting Standards Committee (IASC). The IASC's original Preface gave context to a set of Standards which, at that time, were little used compared with national Standards. It provided terms of reference for the work of the IASC which had not yet been widely accepted.
6. The Preface also gave technical context to the Standards:
- (a) the IASC's original Preface pre-dated publication of its *Conceptual Framework* in 1989; and
  - (b) the IASC's original IAS 1 was limited to disclosure of accounting policies. The IASC only extended IAS 1 to cover presentation of financial statements in 1997.
7. The IASC Preface also included a 'working procedures' section that laid out the due process steps associated with the IASC's publication of International Accounting Standards and Exposure Drafts.

## **Effect of the creation of the Board**

8. The International Accounting Standards Board (Board) was created in 2001 as successor to the IASC. Soon after, in November 2001, the Board decided to

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<sup>1</sup> Following the approval of the Preface, each Interpretation also refers the reader to the Preface to set out the scope and authority of Interpretations.

consult publicly on changes it proposed making to the IASC's Preface by publishing *Exposure Draft of a Proposed Preface to International Reporting Standards*.

9. The questions asked in the 2001 ED about proposed changes to the IASC's Preface were:
  - (a) Is the scope of IFRS Standards (general purpose financial statements of all profit-oriented entities) appropriate?
  - (b) Standards issued by the IASC include paragraphs in bold italic type and paragraphs in plain type. Do you agree with the proposal to discontinue the use of different type styles and that both have equal authority?
  - (c) Are the Board's proposals with respect to due process appropriate? Are any steps unnecessary? Are additional steps required?
  - (d) Are there any other matters that should be addressed in the Preface?
10. Following consultation on these matters, the IASB published its revised Preface in April 2002.

### ***Changes to our governance***

11. As the authority of the Board's activities and the Standards increased over time the Board's governance and due process also increased.
12. The areas which formed the basis of the *Board's* 2001-2 consultation on the Preface are all now the responsibility of the *Trustees*. The Trustees first publicly consulted on the Constitution in November 2003. The Trustees have undertaken seven strategic or constitutional reviews since the Board consulted on the Preface.
13. A further change in governance took place in March 2006 when the Trustees published a separate Due Process Handbook for the first time. The introduction to the DPH states:

that the due process requirements reflect the due process laid out in the Constitution and the Preface to International Financial Reporting Standards issued by the IASB.
14. The reference in the DPH to the Board's Preface was relevant at that time because it explained the origin and scope of the initial DPH and provided assurance that

the previous level of due process in the Preface had been maintained—and strengthened by adding any requirements driven by the Constitution.

### ***Changes made to the Preface since 2001-2***

15. The Preface has been subject to editorial revision and update several times since its original approval by the Board in April 2002.
16. However, not all revisions to the underlying, linked documents have been reflected in the Preface during that period. It has not been amended for all the changes to the Constitution or all the changes to the DPH, which has been amended ten times by the Trustees.
17. Furthermore, the Preface has not been updated in response to revised guidance on trademarks or copyright or to reflect, for example, the creation of the Monitoring Board, revisions to the *Conceptual Framework* or the rebranding of International Financial Reporting Standards as ‘IFRS Standards’.

### **Staff analysis and recommendation**

18. Since the Board revised the Preface in 2002, the staff notes that:
  - (a) The strategic topic in the 2001-2 consultation—the scope of IFRS Standards—has since been consulted on by the Trustees, most recently in 2015 as part of their Review of Structure and Effectiveness. (Point 9(a) above).
  - (b) The technical decision—whether all text has equal authority—was consulted on and decided during this consultation process in 2001-2. (Point 9(b) above). Subsequent discussions about the authority of different types of text have since been covered by the DPH.
  - (c) The due process applied to the Board’s activities (point 9(c) above) is now the province of the Trustees, and not the Board. The Trustees revise the Board’s due process when required and consult publicly on any such proposals.
19. Thus, the points subject to public consultation in 2001-2 have now become subject to public consultation through other processes overseen by the Trustees.

In the staff's view, the role of the Preface has largely been superseded as a result of changes to our governance, in particular the creation of a detailed DPH.

20. Furthermore, the staff think that much of the Preface is now redundant and that this redundant information should be removed. In particular, the Preface contains a significant amount of information that is now duplicated in the Constitution and/or in the DPH. The staff thinks that duplicating this information in the Preface does not help the reader to understand or apply IFRS Standards and its presence obscures information in the Preface that is relevant to an understanding of each Standard and how it should be applied. It is also onerous to update the Preface for information that is owned and managed elsewhere.
21. The staff notes that the cross reference to the Preface incorporated in the introduction to each Standard (paragraph 4 above) refers to the Standard being read in the context of the Standard's objective and Basis for Conclusion, the Preface, and the *Conceptual Framework*. The staff think consequently that the Preface can be reduced only to that content that aids the reader of the Standard. This content includes, for example:
  - (a) existing paragraphs 9 and 10, dealing with which entities are in the scope of the Standards;
  - (b) existing paragraph 20, dealing with the application of the Standards to specific transactions, entered into before the Standard was issued; and
  - (c) paragraph 22 which specifies that the approved text is the English version.
22. The Preface itself refers to its own role as setting out the objective and due process of the Board and explaining the scope, authority and timing of the application of the Standards. The staff think that matters such as the objectives of the IFRS Foundation and the Board and the accompanying due process, which are in the mandate of the *Trustees*, should remain outside the *Board's* Preface and should be recorded in the appropriate document (the Constitution or the DPH) without any need to duplicate this information in the Preface.
23. Consequently, the staff recommend that the information currently in the Board's Preface be restricted to matters relating to the scope, authority and timing of the application of the Board's Standards.

24. In preparing this paper, the staff did consider whether the Preface should be withdrawn, but concluded that:
- (a) the Preface contains some information that is useful to readers of the Standards (paragraph 22 above), much of which does not appear elsewhere; and
  - (b) complete removal of the Preface, rather than updating the document, might place a greater consultation burden on the Board and stakeholders than would updating the existing document. (See also paragraphs 27-29.)
25. A clean version of the proposed, revised Preface is included in Appendix A. The revised Preface has been reordered to improve the flow of the document. The detailed recommended amendments to the content of the Preface are included in mark-up in Appendix B. This provides a reference document of which areas are proposed for deletion and why.

**Question for discussion**

Do you agree that the content of the Board's Preface should be limited to information relating to the scope, authority and timing of the application of IFRS Standards and that information more completely and appropriately covered by the Foundation's Constitution and DPH should be removed from the Preface?

***No requirement to consult on positioning of information***

26. The staff think that *reorganising* information to prevent duplication in the Preface is not a change to the Board's issued *requirements*.
27. The staff think that the proposed reorganisation of the information is a change that more accurately reflects the governance role of the Trustees from the separate technical standard-setting role of the Board. Removing this duplicated information from the *Board's* Preface emphasises the separation of the *Trustees'* responsibility—for maintaining the Constitution and approving Due Process—from the Board's responsibility for setting the Standards.

28. The staff do not think that removing information that is now mandated by the Trustees from the Board's Preface should be subject to public consultation. Nothing is changed in that information; only its duplication is removed.
29. The staff also notes that public consultation has a cost to both the Foundation and to its stakeholders.

**Question for discussion**

Do you agree that changing where the Trustees' decisions are displayed (by removing them from the Preface) does not require public consultation?

**Next steps**

30. If the Board agrees with the staff recommendations in this paper, the revised Preface will be included in all 2019 editions of the Bound Volume which will be published between late December 2018 and Quarter 2, 2019.
31. Board members will be asked to comment on the draft of the revised Preface in Quarter 4, 2018. In order to provide transparency to stakeholders, the staff propose that the draft revised Preface is maintained on the website throughout the updating process.