ECONOMATO GENERALE S.J.
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2 September 2002

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
England

Ladies and Gentlemen:

Thank you for the opportunity to comment on your very extensive standards improvement project. The range of the exposure drafts is impressive, and it is evident that much hard work has gone into these drafts.

My position is that of assistant treasurer of the Society of Jesus, a religious order of the Catholic Church that is also known as the Jesuits. My duties over the last ten years have included visiting Jesuit organizations that use either French or English as their reporting language. That has taken me all over Africa, Asia, and North America, as well as to parts of Europe.

Definitely most, but not all, of my experience has been in the non-profit field. When I first read paragraph 21, page 11, in the Invitation to Comment, my thought was that I need not bother with this document because it seemed so profit-oriented. But this is mitigated, not removed, in paragraph 4, page 24. In varying degrees, both seemed at odds with your April, 2002, press release, where you say that your preface will state that all general purpose financial statements should be in accord with IFRS. So, if the Board wishes to make sure no parallel development of potentially different standards or practices comes about, I recommend that it take a more positive and friendly approach to non-profit entities. Perhaps the following text would serve as a replacement for paragraph 4, page 24.

Initially the Board will use profit-oriented terms in most of its standards. But the Board recognizes that there are accounting issues that arise in non-profit and in many governmental entities that are sometimes similar to, and at other times quite different from, issues arising in for-profit entities. Although there are some accounting issues that are admittedly of greater interest to non-profit entities, e.g., contribution accounting, the Board has concluded that the for-profit issues are broader, more numerous, and presently more urgent than those in other

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spheres. Until such time as the Board can address issues outside the for-profit sphere, it asks those non-profit and governmental entities that issue general purpose financial reports to observe the substance of international standards whenever there is a parallel situation in their accounting—even if it may be necessary or desirable to modify some of the terminology.

Page 25, paragraph 9. Add the following at the end: *But the financial statements and the other reports should not contradict each other.* This is not obvious everywhere.

Page 28, paragraph 16. In response to the IAS 1 question on departures from standards, I suggest that management consult its independent auditor as part of its decision process. If the auditor is unwilling to concur with his client, that should be a weighty reason against departure, although not an absolute barrier.

Page 32, paragraph 33. I suggest that comparative data be optional in the first report issued by an entity, even if the entity has been in operation for longer than one year. I make the same suggestion for the first year in which one adopts international standards. A start-up or a transition period may easily be atypical, and it may also be a hectic period. But after the first issued report, I favor comparative data.

Page 33, paragraphs 40 and 41. I am uneasy with the idea that, as long as something is anywhere in the report, one may say it is disclosed. I believe this is too vague. My preference would be for two terms, perhaps *recognize*, for data included in the statements themselves, and perhaps *disclose*, for data included in notes. In my experience, practice varies widely not only on what goes into a report at all, but on where different items will fit. I think it would be much clearer if the Board adopted terminology that defined whether an item is in the statements or in the notes. That would not preclude having a recognized line item supported by a further disclosure.

Page 36, paragraph 54. Change the opening line to:
. when it meets at least one of the following criteria:
I suggest this lest there be confusion about having to meet all of the criteria. The *or* in c) makes this clear to a careful reader, but not all readers are careful.

Page 38, paragraphs 60 to 64. One or more references to a subsequent-event note may be helpful in this section, especially for financing arrangements made between the end of the fiscal year and the issuance of the report.

Page 39, paragraph 65. *Balance Sheet* is a traditional title, but it may also undervalue the function of the statement. It is much more than just a list of balances on a certain date, or evidence that debits equal credits. The statement reflects the nature and amount of resources an entity has and the burdens on those resources as the entity looks forward. I prefer *Statement of Financial Position*.

There is one point about the statement of financial position that I think the Board has overlooked. As I go from country to country, I encounter some older accounting systems that allow or require a summary of changes in financial position to be included in the equity section. I suggest that this be prohibited. I think the statement of financial position should reflect the final result of all activity, but not the activity itself, even in a summarized fashion. Other statements are meant to reflect activity.

Page 43, paragraph 76. I do not like the inclusion of a minority interest as a component of net income; I would be just as happy to see *g* and *h* simply deleted. When a person studies a for-profit entity, he wants to know what the whole entity does, not just what the larger part does. I believe that all data on a minority holding should be part of the equity section of the statement of financial position.

Page 43, paragraphs 78 and 79. I thoroughly agree with the Board's prohibition of extraordinary items in the income statement. One of the results I have frequently seen in many countries is an erroneous statement of financial position. If a new building is treated as an extraordinary expense in the year of construction, it need not appear in the statement of financial position, and it escapes the charge for depreciation. As long as the building is owned, it will never appear in the statement of financial position, and expenses in the income statement will be understated. On the revenue side, I often find large or unexpected gifts classified as extraordinary donations, and sometimes in a separate section devoted to extraordinary items. I would prefer to see all gifts reported on the same line, even if the result is a highly variable line from year to year.

New item. In a complex business situation with multiple share classes and a minority interest, the need for a separate statement of changes in equity may be apparent. But for many non-profit entities, a line for the beginning balance of net worth below the net income may be enough to come to the ending net worth. I suggest that a separate statement of changes in equity not be required if adding less than five lines to the income statement would do the same thing. This could call for a modified title.

IAS 24 and IAS 28. These two standards, could impact non-profit accounting. Related parties and/or associates/ affiliates do play an important role in the non-profit world whether or not they qualify for consolidation. What especially struck me in these two drafts was an all-pervading basis of financial investment. In the non-profit world, there are many cooperative endeavors that do not involve a cash influx from one entity into another; yet the influence of one on the other, while short of ownership and control, can be notable. Control can also exist without an investment. So I think these standards may need to be revisited in a non-profit context. Could this be stated, possibly in a preface to the full set of revisions? I think postponing (not precluding) any immediate non-profit adaptation can readily be justified by both the financial difficulties of companies such as Worldcom and Enron and the need to have for-profit standards in place in 2005.

If you would like any clarifications or elaborations of these comments, I would be glad to provide them.

Very truly yours,

Henry T. Chamberlain, SJ

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