INSTITUT
DER
WIRTSCHAFTSPRÜFER
IDW

Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Canon Street
London EC4M 6XH

United Kingdom

Düsseldorf, 14 January 2002
494/482

Dear David,

Re.: Proposed Preface to International Financial Reporting Standards and Changes in the IASC Constitution

We would like to thank you for the opportunity to provide comments on the Exposure Draft of the Preface to the International Financial Reporting Standards (hereinafter referred to as the "Preface") and to the Proposed Changes to the IASC Constitution. Our comments are as follows:

1. Proposed Preface to IFRS

As an introductory remark, it should be noted that we consider the Preface to be a document of central importance to the IFRS because it represents the foundation upon which the Conceptual Framework and individual Standards are based. In our view, just as the Standards are altered more easily than the Framework upon which they are based, so the Preface as a central document will be amended less frequently than the Conceptual Framework or Standards based on that Preface. Consequently, we believe that the contents of the Preface need to be examined with great care to ensure that, on the one hand, it provides a solid foundation for the Conceptual Framework and Standards, but, on the other hand, does not unduly hinder the flexibility of the standard-setting process or the amendment of the Conceptual Framework.

1.1. Scope and Authority (Questions 1 and 2)

We agree with the Board's view that the objectives of the IASB can be achieved primarily by developing and publishing IFRS and promoting the use of those Standards in general purpose financial statements and other financial reporting as stated in the first sentence of paragraph 7. The specific reference in paragraph 10 to the provision of information about the financial position, performance and cash flows of an entity may unduly restrict the flexibility with which the Conceptual Framework can be amended to meet new financial reporting challenges. Therefore, such a reference should rather be accommodated in the Conceptual Framework than in the Preface. The same holds true for the requirements set out in paragraphs 11, 16, and 18 which should be omitted from the Preface and included in the Conceptual Framework or a Standard.

While we agree that the IFRS ought to be directed towards profit-oriented entities, it is debatable whether the description of the entities to which IFRS apply in paragraph 9 is clear enough to ensure that it cannot be intentionally misinterpreted. It should be made clear in greater detail that only the business activity and not the legal form of an entity is relevant to the determination as to whether or not the entity is profit-oriented. In our view, essentially any entity or organisation that is, in economic substance, directed towards the provision of economic gain to its members should be regarded as profit-oriented. On the other hand, it should be ensured that those organisations and entities that are not directed towards providing economic gain to their members are not included in the definition of profit-oriented entities by clearly delineating the definition.

We support the statement in paragraph 14 that paragraphs in IAS in bold italic type and plain type have equal authority. Nevertheless, we think it would be inappropriate if the bold italic type were to be eliminated for general principles for the following reasons. The specific identification of general principles eases the organisation of the text, which then becomes easier to read. Furthermore, because the general principles would need to be identified during the standard-setting process, the use of bold italic type enforces a kind of discipline on the standard setter in that it is forced to identify what the general principles are before dealing with the specific application of the standard for particular cases. This in no way diminishes the authority of the plain type for the cases that it addresses, but it does cause readers to consider the general principles in bold italic type with greater care when applying a standard to cases not covered by the plain type.

1.2. Due Process (Question 3)

The due process normally expected to be followed in issuing Standards and Interpretations as set out in paragraphs 19 and 20 appears appropriate to us.

1.3. Other Issues (Question 4)

In our view the objectives of the IASB should also be to ensure that the standards developed are “operable”. That is, they must be reasonably capable of implementation. In other words, we do not believe that financial reporting requirements can ultimately be divorced from the ensuing requirements placed on management information systems. Consequently, this aspect of standard setting for financial reporting ought to be taken into account in the objectives of the IASB in paragraph 6(a).

Given the increasing use of translations of the IAS, we believe it is imperative that paragraph 24 on language clearly state that while translations may be used to apply and interpret the IAS and IFRS, in cases of doubt the English text is authoritative. If such a statement were not to be made, it is inevitable that disputes over the meaning of standards will arise due to the different language versions of these standards. Furthermore by this clarification the impression will be avoided that the national translators have the function of standard setters.

Furthermore, we believe that the Preface should more clearly state that International Financial Reporting Standards will set general principles, consistent with the Framework, in each Standard from which additional mandatory guidance for specific cases treated within that Standard will be deduced. From the current version of the Preface, this objective can be derived only implicitly (for example, from paragraphs 13 and 8 stating that like transactions and events should be accounted for in a like way and that the objective of the Framework is to facilitate the consistent and logical formulation of individual accounting standards).

2. Proposed Changes in the IASC Constitution

We concur with the proposed changes in the IASC Constitution. In particular, we appreciate the intended expansion of IFRIC’s mandate to address issues not specifically addressed by IFRS. For reasons of clarity, we suggest, however, to amend paragraph 41(a) of the proposed text to read: “...and provide timely guidance on issues not specifically addressed in IFRS **or IAS**,...”. This amendment takes into account the Board’s resolution that IAS issued under previous Constitutions continue to be applicable and that there is a need for IFRIC to provide guidance on issues that are not specifically addressed in existing IAS but that are related to areas governed by these Standards as well.

INSTITUT
DER
WIRTSCHAFTSPRÜFER
IDW

Since the objective of IFRIC is only to provide “timely” guidance, we would appreciate a requirement that IASB has to develop an IFRS within a specified period of time, taking the guidance provided by IFRIC as a starting point. We take the view that this period of time should not exceed two years.

Yours sincerely,

Klaus-Peter Naumann