10 Paragon Drive
Montvale, NJ 07645-1760
Tel: 800-638-4427, 201-573-9000
Fax: 201-573-8185

IMA

Certified Management Accountant Program
Certified in Financial Management Program

January 9, 2002

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Preface to International Financial Reporting Standards

Dear Board Members:

This letter represents the comments of the Financial Reporting Committee of the Institute of Management Accountants (United States) on the IASB's Exposure Draft, "Preface to International Financial Reporting Standards." We respond to the four specific questions posed by the Board and add a few comments on other matters.

Scope of Application of Standards

In general we concur with the Board's decision to limit the application of its pronouncements to profit-oriented entities. However, we note that in the United States a continuing point of controversy is whether certain entities should be defined (and accounted for) as profit-oriented or not-for-profit. In particular, it is problematic as to whether hospitals, colleges and universities, and certain utilities should be considered profit-oriented or not, depending on their ownership and certain other characteristics. Paragraph 9 of the Exposure Draft notes only that, "Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities, whether organized in corporate or other forms." We could easily read that definition as either including or excluding hospitals, colleges and universities, and certain utilities. We urge the Board to develop a more robust definition of profit-oriented in order to clearly articulate the scope of entities to which your standards are intended to apply.

Bold Italic vs. Plain Type

As noted in question 2, we agree with the Board's decision to "discontinue the use of different type styles." All parts of a standard should have equal standing and the Board's decision should remove any ambiguity with respect to the authority of different parts of the standards. We believe, however, that this point could be made clearer in the Preface. As now worded, paragraph 14 states that the standards issued by the IASB will not make the Bold Italic vs. Plain type distinction. We suggest adding a sentence making it explicit that all parts of a standard must, therefore, be applied, and not just those described as main principles.

We suggest that the IASB take appropriate action to specify that all sections of standards previously issued by the IASC must also be applied.

It is likely that the Preface will not be read in all cases when interested parties make reference to individual standards in the future. Thus, we suggest that each individual standard include a clear statement on this matter, at least until all former IASC standards are conformed to the new approach as discussed above.

Due Process Procedures

We support the due process procedures described in paragraphs 19 and 20. We note that they go somewhat beyond those of the Financial Accounting Standards Board, particularly with respect to the required action by the Board on IFRIC proposals. We agree that that is an appropriate procedure. However, we also observe that if the IFRIC becomes as active as the FASB's Emerging Issues Task Force at some future date, the requirement for the Board to act on IFRIC proposed interpretations could slow the process of issuing useful guidance to companies and auditors.

Materiality

Paragraph 18 notes that, "IFRS need not be applied to immaterial items." We agree with that position. However, we also note that this matter has recently become clouded in the United States. While FASB Statements typically included a "materiality box" similar to the wording in paragraph 18, the SEC's Staff Accounting Bulletin No. 99 includes, in Footnote 28, language that seems to contradict that guidance. That is, Footnote 28 states the SEC staff's belief that the standard materiality box does not allow companies to "… set forth immaterial items in financial statements in a manner that plainly would be contrary to GAAP if the misstatement were material." We strongly disagree with this assertion. When an accounting matter is clearly immaterial, a company should not be required to incur costs for literal application.

We recognize that determining materiality requires the exercise of judgment, and it would be difficult for the IASB to develop guidance that would allow unequivocal determinations of materiality in all situations. However, because of the clouded situation in the United States caused by this seeming contradiction between FASB and SEC literature, we believe it is imperative that the IASB say more about materiality than the single, short sentence now in paragraph 18.

One possibility would be for the IASB to include in the Preface some or all of the language now included in paragraphs 29 and 30 of the IASC Framework. In particular, we support the following wording in paragraph 30 and suggest the thrust of this paragraph be added to the Preface:

> Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Other Matters

Paragraph 7 notes that the IASB may develop standards that cover matters beyond financial statements. We are somewhat uncomfortable with the unstated but possibly very wide range of matters that could conceivably be included in such activities. At a minimum, while "one size fits all" may be an acceptable approach in developing standards for financial statements, if the Board decides to venture beyond that primary area of responsibility and specify standards for information outside of financial statements, it will be much more necessary to consider other factors such as nature and diversity of ownership, size of the entity, and nature of the business.

Paragraph 10 makes reference to "…general purpose individual … financial statements" (emphasis added). This term is not clear to us in a United States context and we suggest that it be further explained.

We also note that paragraph 10 indicates that the IASB's standards "… are directed towards the common information needs of a wide range of users, such as shareholders, creditors, employees and the public at large." This strikes us as an unnecessarily wide range of interests. In the United States, general purpose financial statements are designed primarily to address the needs of investors and creditors. We recognize that this is a matter more appropriately considered by the Board if and when it revisits the IASC Framework. However, if you sincerely ascribe to the very broad range of users listed in paragraph 10, we believe it will be extremely hard to agree on individual standards that truly meet all of those users' needs.

Please let us know if you have any questions about the suggestions included in this letter or if there are other matters for which we can provide assistance to the International Accounting Standards Board.

Sincerely,

John J. Perrell III
Chairman, Financial Reporting Committee

Copy: Edmund L. Jenkins, Chairman, Financial Accounting Standards Board
Robert K. Herdman, Chief Accountant, Securities and Exchange Commission