Exposure Draft of a Proposed

PREFACE TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Issued for comment by 15 February 2002

This Exposure Draft is issued by the International Accounting Standards Board for comment only. The recommendations in the draft may be modified in the light of the comments received before being issued in the form of a Preface to International Financial Reporting Standards.

Comments should be submitted in writing so as to be received by **15 February 2002**. All replies will be put on public record unless confidentiality is requested by the commentator. If commentators respond by fax or E-mail, it would be helpful if they could also send a hard copy of their response by post. Comments should preferably be sent by E-mail to: **CommentLetters@iasb.org.uk** or addressed to:

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Invitation to Comment

The International Accounting Standards Board (IASB) has published this Exposure Draft for public comment.

Comments should be submitted in writing so as to be received by 15 February 2002. The Board invites comments on any aspect of this Exposure Draft. It would particularly welcome answers to the questions set out below, with reasons for those answers. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, explain the issue and, where applicable, provide a suggestion for alternative wording with appropriate reasoning.

Background

1. This Exposure Draft comprises a revised text for the Preface to International Financial Reporting Standards (IFRS). The Board proposes to amend and reissue the Preface to set out the objectives, procedures and due process of the IASB and explain the scope and authority of IFRS.

2. In 2001, the IASB assumed standard setting responsibilities from its predecessor body, the International Accounting Standards Committee (IASC). This was a culmination of a restructuring based on the recommendations of a report issued by the Strategy Working Party, "Recommendations on Shaping IASC for the Future".

3. The IASB decided that it was appropriate to revise the Preface that was last revised in 1982. In preparing the proposed draft, the IASB considered various developments since 1982 including the Framework for the Preparation and Presentation of Financial Statements, IAS 1, Presentation of Financial Statements, and the revised Constitution of May 2000.

Matters Addressed in the Proposed Preface

Scope and Authority

Question 1.

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 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?

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?

Due Process

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?

General

Question 4.

Are there any other matters that should be addressed in the Preface to IFRS?

Draft Preface to International Financial Reporting Standards

This preface is issued to set out the objectives and due process of the International Accounting Standards Board and to explain the scope and authority and timing of application of International Financial Reporting Standards. The Preface was approved in [date will be inserted after finalisation] and supersedes the Preface published in January 1975 (amended November 1982).

1. The International Accounting Standards Board (IASB) was established in 2001. Members of the IASB are appointed by the Trustees and comprise twelve full-time and two part-time members. Approval of International Financial Reporting Standards (IFRS) and related documents, such as the Framework for the Preparation and Presentation of Financial Statements (the Framework), Exposure Drafts, and other discussion documents, is the responsibility of the IASB.

2. The International Financial Reporting Interpretations Committee (IFRIC) is a group of twelve people appointed by the Trustees. The role of the IFRIC is to prepare Interpretations of IFRS for approval by the IASB.

3. The Standards Advisory Council (SAC) is a group of people appointed by the Trustees. It provides a formal vehicle for participation by organisations and individuals with an interest in international financial reporting, having diverse geographic and functional backgrounds, with the objective of giving advice to the IASB on priorities and on major standard setting projects.

4. The IASB was preceded by the Board of the International Accounting Standards Committee (IASC), which came into existence on 29 June 1973 as a result of an agreement by professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America. A revised Agreement and Constitution were signed in November 1982.

The Constitution was further revised in October 1992 and in May 2000. Under the May 2000 Constitution, the professional accountancy bodies adopted a mechanism enabling the appointed Trustees to put the May 2000 Constitution into force. The Trustees activated the new Constitution in January 2001.

5. At its meeting on 20 April 2001, the IASB passed the following resolution:

> "All Standards and Interpretations issued under previous Constitutions continue to be applicable unless and until they are amended or withdrawn. The International Accounting Standards Board may amend or withdraw International Accounting Standards and SIC Interpretations issued under previous Constitutions of IASC as well as issue new Standards and Interpretations."

Thus, the IFRS referred to in this Preface include the Standards issued prior to 2001, which are identified as International Accounting Standards (IAS).

The Objectives of the IASB

6. The objectives of the IASB are:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions;

(b) to promote the use and rigorous application of those standards; and

(c) to work actively with national standard setters to bring about convergence of national accounting standards and IFRS to high quality solutions.

Scope and Authority of International Financial Reporting Standards and Interpretations

7. The IASB achieves its objectives primarily by developing and publishing IFRS and promoting the use of those Standards in general purpose financial statements and other financial reporting. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions. In developing IFRS, the IASB works with national standard setters to maximise the convergence of IFRS and national standards.

8. IFRS set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They may also set out such requirements for transactions and events that arise mainly in specific industries. IFRS are based on the IASB's Framework, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the Framework is to facilitate the consistent and logical formulation of individual accounting standards. The Framework also provides a basis for the use of judgement in resolving accounting issues.

9. IFRS are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities, whether organised in corporate or other forms. They include organisations such as mutual insurance companies and other mutual cooperative entities that provide dividends or other economic benefits directly and proportionately to their owners, members or participants. 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. The Public Sector Committee of the International Federation of Accountants (PSC) has issued a Guideline stating that IFRS are applicable to government business enterprises. The PSC is preparing accounting standards for governments and other public sector entities, other than government business enterprises, based on IFRS.

10. IFRS apply to general purpose individual or consolidated financial statements. Such financial statements are directed towards the common information needs of a wide range of users, such as shareholders, creditors, employees and the public at large. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.

11. A complete set of financial statements includes a balance sheet, an income statement, a statement showing either all changes in equity or changes in equity other than those arising from capital transactions with owners and distributions to owners, a cash flow statement, and accounting policies and explanatory notes. In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an entity may provide less information in its interim financial statements than in its annual financial statements. IAS 34 prescribes the minimum content of complete or condensed financial statements for an interim period. The term 'financial statements' includes a complete set of financial statements prepared for an interim or annual period, and condensed financial statements for an interim period.

12. In some cases, the IASC permitted different treatments for given transactions and events. In most cases, one treatment is identified as the 'benchmark treatment' and the other as the 'allowed alternative treatment'. The financial statements of an entity may appropriately be described as being prepared in accordance with IFRS whether they use the benchmark treatment or the allowed alternative treatment.

13. The IASB's objective is to require like transactions and events to be accounted for and reported in a like way and unlike transactions and events to be accounted for and reported differently, both within an entity over time and among entities. Consequently, the IASB has reconsidered, and will continue to reconsider, those transactions and events for which IAS permit a choice of accounting treatment, with the objective of reducing the number of those choices.

14. The Standards issued by the IASC include paragraphs in bold italic type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles whereas those in plain type explain those main principles or their application in a particular situation.

Draft Preface to IFRS

Standards issued by the IASB do not make this distinction. An individual Standard should also be read in the context of the Objective stated in that Standard and the Preface.

15. Interpretations of IFRS are prepared by the IFRIC to give authoritative guidance on issues that are likely to receive divergent or unacceptable treatment, in the absence of such guidance.

16. International Accounting Standard 1, Presentation of Financial Statements, includes the following requirement:

> "An enterprise whose financial statements comply with International Accounting Standards should disclose that fact. Financial statements should not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable Standard and each applicable Interpretation of the Standing Interpretations Committee."

In adopting the resolution referred to in paragraph 5 above, the IASB intends that the same requirement is applicable to IFRS.

17. Any limitation of the scope of an IFRS is made clear in the Standard.

18. IFRS need not be applied to immaterial items.

IASB's Due Process

19. IFRS are developed through an international due process that involves accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organisations from around the world. The Board consults with the SAC about the projects it should add to its agenda and discusses technical matters in meetings that are open to public observation. Due process for projects normally, but not necessarily, involves the following steps (the steps that are required under the terms of the IASC Constitution are indicated by an asterisk*):

    (a) staff work to identify and review all the issues associated with the topic and to consider the application of the IASB's Framework to the issues;

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(b) study of national accounting requirements and practice and an exchange of views about the issues with national standard setters;

(c) consultation with the SAC about the advisability of adding the topic to the Board's agenda;*

(d) formation of an advisory group to give advice to the Board on the project;

(e) publishing for public comment a discussion document;

(f) publishing for public comment an Exposure Draft approved by at least eight votes of the IASB, including any dissenting opinions held by IASB members and a basis for conclusions;*

(g) consideration of all comments received on discussion documents and Exposure Drafts;*

(h) consideration of the desirability of holding a public hearing and of the desirability of conducting field tests and, if considered desirable, holding such hearings and conducting such tests; and

(i) approval of a Standard by at least eight votes of the IASB and inclusion in the published Standard of any dissenting opinions and a basis for conclusions, explaining, among other things, how the Board dealt with public comments on the Exposure Draft.*

20. Interpretations of IFRS are developed through an international due process that involves accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organisations from around the world. The IFRIC discusses technical matters in meetings that are open to public observation. The due process for each project normally, but not necessarily, involves the following steps (the steps that are required under the terms of the IASC Constitution are indicated by an asterisk*):

(a) staff work to identify and review all the issues associated with the topic and to consider the application of the IASB's Framework to the issues;

(b) study of national accounting requirements and practice and an exchange of views about the issues with national standard setters, including national committees that have responsibility for interpretations of national standards;

(c) publication of a draft Interpretation for public comment if no more than three of the IFRIC's members have voted against the proposal;*

(d) consideration of all comments received on a draft Interpretation within a reasonable period of time;*

(e) approval by the IFRIC of an Interpretation if no more than three of the IFRIC's members have voted against the Interpretation after considering public comments on the draft Interpretation;* and

(f) approval of the Interpretation by at least eight votes of the IASB.*

Timing of Application of Standards and Interpretations

21. An IFRS or Interpretation applies from a date specified in the document. New or revised Standards and Interpretations set out transitional provisions to be applied on initial application of the Standard or Interpretation.

22. The IASB has no general policy of exempting transactions occurring before a specific date from the requirements of new financial reporting standards. When financial statements are used to monitor compliance with contracts and agreements, a new Standard may have consequences that were not foreseen when the contract or agreement was finalised. For example, covenants contained in banking and loan agreements may impose limits on measures shown in a borrower's financial statements. The IASB believes the fact that financial reporting requirements evolve and change over time is well understood and would be known to the parties when they entered into the agreement. It is up to the parties to determine whether the agreement should be insulated from the effects of a future accounting standard, or, if not, the manner in which it might be renegotiated to reflect changes in reporting rather than changes in the underlying financial position.

23. Exposure Drafts are issued for comment and their proposals are subject to revision. Until an IFRS is completed, the requirements of any IFRS that would be affected by proposals in an Exposure Draft remain in force.

Language

24. The approved text of any discussion document, Exposure Draft, IFRS or Interpretation is that approved by the IASB in the English language. The IASB may approve translations in other languages, provided that the translation is prepared in accordance with a process that provides assurance of the quality of the translation, and the IASB may licence other translations.