UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF
THE CHIEF ACCOUNTANT

February 15, 2002

<u>Via Facsimile</u>

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH, United Kingdom

Dear David:

This letter is in response to the Exposure Draft of the Preface to the International Financial Reporting Standards, which was recently issued for comment by the International Accounting Standards Board (‘the Board”).

The Preface Exposure Draft addresses a number of important issues and its completion will be another contribution to high quality international financial reporting. There are two issues that the staff of the U.S. Securities and Exchange Commission (“the Staff’) would like to particularly single out for comment:

1.) Paragraph 14 on the matter of “bold italic type” and “plain type”, an issue also described as the “black versus gray lettering” issue.

    The Staff believes the Board has rightly determined that the text of future accounting standards should not contain this lettering distinction. In our experience, the presence of two types of format inevitably results in discussion among issuers and others as to the status and significance of each, leading to debates that do not add value to the financial reporting process. This has necessitated that the Board remedy the situation for past standards that used this format by providing further instructions that the two forms of type “have equal authority”. The Staff believes that the Board can best make the basic principles of each standard clear in a summary at the beginning of the standard.

2.) Paragraph 18 "IFRS need not be applied to immaterial items.”

    This paragraph presents a brief statement that should be clarified or omitted altogether. As you are no doubt aware, U.S. accounting standards contain a similar reference. For example, there is a box at the end of each Statement of Financial Accounting Standards, that states “The provisions of this Statement

> need not be applied to immaterial items." Questions have arisen as to what the boxed statement in the FASB Standards really means. On some occasions, we believe the boxed statement has been misinterpreted by preparers and auditors.
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> The Staff found it necessary to address this matter in Footnote 28 to the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 99 on Materiality, issued on August 13, 1999. At the time, there were SEC registrants who contended that the box in the FASB standards gave them license to initiate intentional adjustments that were contrary to the accounting presented in a standard. Such adjustments generally arose in circumstances where it appeared that a registrant was seeking to achieve a predetermined earnings result through one or more accounting entries impacting net income. These adjustments did not have any basis in Generally Accepted Accounting Principles and in fact were in conflict with accounting principles stated in standards. The boxed statement on immateriality was incorrectly cited as a defense for the adjustments.
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> While each accounting standard establishes generally accepted accounting principles and tells reporting companies "how to do it right", we believe the boxed statement acknowledges that where there are relatively few applicable transactions and the effect of non-compliance is clearly inconsequential, companies need not apply the guidance in the standard. However, any method departing from the standard should not be initiated selectively for the purpose of achieving a certain income effect in a particular period.
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> The staff believes that preparers, auditors, and users would all benefit greatly if the statement appearing in paragraph 18 of the Preface Exposure Draft, could be clarified to state explicitly what this statement means, i.e., how this statement is intended to be used. For example, such a statement might specify "IFRS are not intended to be applied to immaterial items, as in the case where compliance with a standard is consistently omitted due to the occurrence of relatively few transactions and the effect of non-compliance would clearly have no effect on economic decisions of users" or other wording that clearly conveys the intent of the statement.

In making this second comment, we are aware that there is also a discussion of the meaning of the term "materiality" in paragraph 29 and 30 of the IASC Framework. This discussion is useful in understanding the way in which the Board is defining the term. However, the meaning of the term itself is not the same issue as the meaning of the statement in paragraph 18 in which the term is used. There is an important need to make it clear what the Board really means by the statement in the Preface.

As the IASB moves to complete its work on the Preface, we urge the Board to show global leadership in addressing and clarifying this issue.

Sincerely,

Robert K. Herdman

Robert K. Herdman
Chief Accountant