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International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

6 February 2002

Dear Sirs

**Exposure Draft of a Proposed  
Preface to International Financial Reporting Standards**

The Accounting Standards Board welcomes the opportunity to comment on the above Exposure Draft. As IASB will be aware, the ASB invited its constituents to provide their comments on the draft. Copies of the request for comments and the letters received in response (except those in respect of which the respondent requested confidentiality) are enclosed. The ASB has considered the views expressed in these letters in the development of this response.

*Fair presentation*

One of the objectives of the Preface should be that of informing preparers and auditors of how IFRSs are to be used. The ASB therefore believes that the Preface should emphasise that preparers cannot necessarily fulfil their duties merely by ensuring compliance with standards; they also have an overarching responsibility to ensure that the financial statements meet the reasonable expectations of users—that is to say that they mean what an informed user, aware of relevant standards, would expect them to mean.

In the UK, and in many other jurisdictions, this principle is expressed as the requirement to ensure that accounts give ‘a true and fair view’. It is reflected in



IAS 1 (revised 1997) as the requirement that accounts achieve fair presentation. In the ASB's view, in order to ensure a proper understanding of the responsibilities of preparers, reference to such a concept in the Preface is essential.

### *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?*

Whilst it is understood that IASB's immediate priority is in developing accounting standards for profit-oriented entities, the ASB believes that IASB should also take into account in its work the needs for convergence in financial reporting between such entities and those in the not-for-profit sector. The not-for-profit sector is an important user of the capital markets (notably for debt securities). It is also the case that, in many countries, the division between the profit seeking sector and the not-for-profit sector is becoming much less clear than it formerly was. For example, many entities operate within both sectors and produce a single set of financial statements for all their activities. For these reasons, the IASB should consider adopting the aim of developing standards having regard to their possible use by not-for-profit organisations.

The work of the Public Sector Committee of the International Federation of Accountants addresses governments and other public sector entities, other than government business enterprises. However, that initiative does not address non-governmental not-for-profit entities: we believe IASB should consider how it can assist international initiatives to address this gap.



## *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?*

The ASB has experience of working with a style of standard that is similar to that used by IASC, and of a format in which all paragraphs are in the same style of type, supported by an explanation and a basis for conclusions. Based on that experience, ASB would strongly prefer IASB to retain the style of IASC standards.

However, the style of type is a relatively minor issue: the fundamental points are:

- (i) Compliance with standards should be understood to require compliance with all parts of all standards.
- (ii) Standards should focus on principles, and, as far as possible, show how more detailed requirements derive from those principles. This will reduce the need to elaborate a further rule for every new transaction. It should also assist in engendering a greater readiness to comply with the spirit, not just the rules, of accounting standards.

The ASB does not accept that using different type styles necessarily results in some paragraphs carrying less authority, or being observed less rigorously than others: indeed, the Preface is an ideal medium through which this could be authoritatively clarified.



The present style of standards has the following advantages:

- (i) it enables the principles of a standard to be clearly set out;
- (ii) it permits the guidance to reinforce the relevant principle in the manner suggested at (ii) above. It also enables explanation to be given at the most convenient point in the standard. If this is given elsewhere in a document, it inevitably leads to repetition, and gives rise to the risk that relevant material will be overlooked; and
- (iii) It makes the standard easier to read, understand and explain.

### *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?*

The ASB is content with the substance of the proposals in paragraphs 19 and 20. Although it may not be a matter to be specified in the Preface, we note the view expressed by a number of national standard-setters at the January IASB meeting with national standard-setters that comment periods on exposure drafts should not normally be shorter than 120 days. We agree with that view.

### *Question 4*

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

As explained above, the ASB is of the view that it is essential that the Preface specify clearly that the duty of a preparer goes beyond mere compliance with the requirements of standards.

*Exemption of earlier transactions ('Grandfathering')*

Except for the points made above, the ASB supports the draft Preface.

We would like in particular to make clear our support for the policy set out in paragraph 22 of the draft that accounting standards should not, other than in exceptional circumstances, exempt transactions occurring before a specific date. Grandfathering impairs comparability and thus reduces the quality of financial information.

Where parties choose to rely on financial statements to monitor compliance with contracts, it is for those parties to decide on the accounting principles to be used, and whether those principles should change as accounting standards change. It is impossible for a standard-setter to judge whether grandfathering would or would not produce a result that is more equitable to the parties.

The undesirability of grandfathering is, in fact, only one consequence of the more general proposition that the requirements of those who use financial information for contracting purposes is not a relevant consideration in setting accounting standards. As stated in paragraph 10 of the draft, general purpose financial statements address the common information needs of a wide range of users; their needs should not be subordinated to those of parties who choose to use general purpose financial statements for special purposes. IASB may wish to consider stating this more general point in the final text.

\*\*\*\*\*

We would be very willing to discuss these points or any other aspect of the draft Preface if that would be helpful.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Andrew C Lennard'.

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Director of Operations

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**NOT FOR PUBLICATION BEFORE  
0001 ON 08 FEBRUARY 2002**

## **PRESS NOTICE**

### **ACCOUNTING STANDARDS BOARD (ASB) COMMENTS ON INTERNATIONAL STANDARDS BOARD (IASB)'s DRAFT PREFACE**

The ASB has written the attached letter to the IASB, commenting on its Exposure Draft of a Preface to International Financial Reporting Standards (IFRSs). The ASB invited its constituents to comment on the IASB's draft and has taken the replies into account in developing its own response.

The ASB's response underlines the importance of making it clear to preparers of accounts that compliance with standards is not necessarily enough; they must ensure that accounts meet the reasonable expectations of users or give "a true and fair view".

The other main point highlighted by the ASB is that the IASB should take into account the need for convergence in financial reporting between profit-oriented entities and the not-for-profit sector; and it should therefore consider taking into account the possible use of international standards by not-for-profit organisations.



## **Notes For Editors**

The IASB published its Exposure Draft of a Preface to International Financial Reporting Standards in October 2001 and the ASB issued its invitation to comment in November. The IASB's deadline for comments is 15 February 2002.

The responses to the ASB's invitation to comment will be available for inspection in the libraries of the member bodies of the Consultative Committee of Accountancy Bodies (CCAB) and from the ASB at Holborn Hall (telephone 020 9611 9702).

**END**

**Press enquiries:** Mary Keegan (Chairman), Allan Cook (Technical Director) or Andrew Lennard (Director of Operations) on 020 7611 9702.

**RESPONSES FOR THE PUBLIC RECORD  
TO AN EXPOSURE DRAFT BY THE  
INTERNATIONAL ACCOUNTING STANDARDS BOARD  
OF A**

**“Preface to International  
Financial Reporting Standards”**



ACCOUNTING  
STANDARDS  
BOARD

**February 2002**



**Nine responses were received to the Preface to International Financial Reporting Standards. One of these was confidential. The other eight reproduced here were from:**

	<b>Page No's</b>
1. British Broadcasting Corporation	1-2 [see 25a]
2. Chartered Institute of Public Finance and Accountancy, The	3-8 [see 25b]
3. Hundred Group of Finance Directors, The	9-10 [see 25c]
4. Institute of Chartered Accountants in England & Wales, The	11-14 [see 25d]
5. Institute of Chartered Accountants in Ireland, The	15-17 [see 25e]
6. Institute of Chartered Accountants of Scotland, The	18-20 [see 25f]
7. London Society of Chartered Accountants	21-23 [see 25g]
8. National Housing Federation	24 [see 25h]