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

Dear Sirs:

**Exposure Draft: Preface to International Financial Reporting Standards**

I am writing in response to the invitation to comment on the above exposure draft. These are personal comments, and should not be construed to represent the views of organizations or committees with which I have been, or am now, associated, including the Canadian Advisory Group on International Accounting Standards (on which I served from 1988 to 2000).

**Question 1**

The Board's purpose, as described in paragraph 9, needs clarification, in the following respects:

- (a) It is not clear why a mutually cooperative entity is considered to be profit-oriented.
- (b) Would a condominium corporation be deemed profit-oriented?
- (c) Many not-for-profit organizations control profit-oriented entities which would, I believe, be appropriately accounted for under IFRS, even if the "parent" organization is not. A noted Canadian example is a university which operates its football stadium on a for-profit basis.
- (d) Paragraph 4 of IAS 1 states that not-for-profit organizations seeking to apply IAS 1 "may need to amend the descriptions used for certain line items in the financial statements and for the financial statements themselves", thereby giving the impression that the key difference between not-for-profit and for-profit accounting is that of terminology. This is unfortunate, given the very significant recognition and measurement issues arising out of such matters as restricted contributions.

**Question 2**

In IASC Standards the status of the paragraphs in bold italic type was unclear, because each Standard was prefaced with the following italicized sentence:

*The standards, which have been set in bold italic type, should be read in the context of the background material and implementation guidance in this Standard, and in the context of the Preface to International Accounting Standards.*

This wording certainly suggests (contrary to Paragraph 14 of the exposure draft) that it is the paragraphs in bold italic type that are the true “standards”, and that the other paragraphs are simply background material and implementation guidance.

A second issue relating to authority is that, according to the lead-in to Question 2, each IFRS is to include “robust and useful guidance to illustrate the basic principles in each Standard”; such guidance will include a “detailed Basis for Conclusions” and, according to paragraph 19, an explanation of how the Board has dealt with public comments on the exposure draft. Is all this guidance to have the same authority as the “basic principles”?

### Question 3

I have three comments on the proposed steps in paragraph 19:

- (a) Public hearings and field tests should usually be conducted before issuing the Exposure Draft, so step (h) should appear before step (f).
- (b) Where significant changes are made after issuance of the Exposure Draft, the proposed standard should be re-exposed for comment. (Without re-exposure in these circumstances, the public will not have had the opportunity to comment on the proposed final positions on the matters changed.)
- (c) These steps should address the public availability of Exposure Draft comments on which confidentiality has not been requested, i.e. how soon will they be available, and where.

### Question 4 – Other matters

#### **(a) Name of standards**

Calling the standards “International Financial Reporting Standards” rather than “International Accounting Standards” is not an improvement, for five reasons:

- It is inconsistent with the objective of the IASB set out in paragraph 6(a), which specifically refers to “global accounting standards”.
- It is inconsistent with the Board’s name, which is not “International Financial Reporting Standards Board”.
- It is inconsistent with the standards being developed by the PSC for governments – see paragraph 9.

- It is inconsistent with the Framework and with other IASC pronouncements, which include several references to “accounting standards” and to “International Accounting Standards”.
- It implies that matters pertaining to financial reporting, in addition to accounting matters, will be covered. The prime example would be the auditor’s report – a key element of financial reporting, particularly for participants in capital markets. Is the Board really planning to issue standards on audit reports?

The vague reference to “other financial reporting” in paragraph 7 is not helpful: it is worded so broadly as to seemingly apply to such documents as the analysts’ reports issued by stockbrokers or prepared by institutional investors. Surely the IASB is not intending to try to regulate these? In contrast, paragraph 8 appears to limit the application of IFRS to general purpose financial statements.

**(b) Name of Interpretations Committee**

Calling the Interpretations Committee the “International Financial Reporting Interpretations Committee” is inappropriate for some of the reasons cited in (a) above, but also because, at least in the foreseeable future, the Committee will presumably be interpreting existing International Accounting Standards (emphasis added). If this is true, paragraph 2 is in error, in that it does not recognize the possibility of interpreting anything other than IFRS.

**(c) Use of judgement**

Paragraph 8, last sentence, states that the Framework provides a basis for the use of judgement in resolving accounting issues. While I think this is an appropriate use of the Framework, the Framework does not refer to the use of judgement. It does, however, state in the first paragraph that one of its seven purposes is to “assist preparers of financial statements in applying International Accounting Standards and in dealing with topics that have yet to form the subject of an International Accounting Standard”. In this respect the Framework appears to fall short of the CICA Handbook section “Financial Statement Concepts”, paragraph .02 of which is:

The Committee expects this Section to be used by preparers of financial statements and accounting practitioners in exercising their professional judgment as to the application of generally accepted accounting principles and in establishing accounting policies in areas in which accounting principles are developing.

It may be desirable for the IASB Preface to make a more general reference to the role of judgement or, preferably, “professional judgement”. The Introduction to Accounting Recommendations in the CICA Handbook states:

In issuing Recommendations, the Accounting Standards Board recognizes that no rule of general application can be phrased to suit all circumstances or combination of

circumstances that may arise, nor is there any substitute for the exercise of professional judgment in the determination of what constitutes fair presentation or good practice in a particular case.

It is unfortunate that neither the CICA, nor any other standard-setting body, has documented the characteristics of good judgement by accountants, such as consultation on contentious issues, or even the differences between judgement and professional judgement (although the UK Accounting Standards Board, in its Foreword to Accounting Standards, refers to the need for judgement about departing from an accounting standard to achieve a true and fair view to be “informed” and “unbiased”).

**(d) Accounting policies**

The wording of paragraph 11, first sentence, suggests that the summary of accounting policies would not be included in the notes. This is contrary to IAS 1, paragraphs 91(a), 94(b) and 97.

If you have any questions with regard to these comments, please do not hesitate to contact me.

Yours truly

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