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Memorandum of comment submitted to the International Accounting Standards Board in January 2002 concerning the exposure draft, 'Preface to International Financial Reporting Standards, published by the Board in November 2001

Paragraphs

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INTRODUCTION

1. The Institute of Chartered Accountants in England & Wales welcomes the opportunity to respond to the International Accounting Standards Board (the Board) regarding the exposure draft, 'Preface to International Financial Reporting Standards', published by the Board for comment in November 2001.
2. We welcome the development by the Board of an updated and revised Preface. We have reviewed the exposure draft and set out below a number of comments. We deal first with significant matters before commenting on the specific issues raised in the exposure draft.

MAJOR POINTS

Principles and Not Rules

3. In paragraph 13 of the draft Preface, the Board states that its objective "is to require like transactions to be accounted for and reported in a like way and unlike transactions and events to be accounted for and reported differently". We fully support this objective, which in our view underlines the fundamental importance of adopting an approach to the development of standards that focus on principles, drawn clearly from the Board's conceptual framework, rather than on detailed rules. We recommend that a clear statement of the Board's intentions in this area is included in paragraph 8 of the Preface, together with clarification of the relationship between the principles expressed in the Framework and those set out in IFRS.

True and Fair View

4. In our view, the failure to identify in the draft Preface the overarching need for financial statements to provide a 'true and fair view' is a fundamental omission. Whilst reflected (by the requirement for 'fair presentation') in other material published by the Board, we believe that explicit reference should be made to the concept of true and fair in the Preface in, for example, paragraph 10.

Scope of IFRS

5. We recommend that the Board develops clearer guidance on the intended scope of IFRS. The emphasis on the capital markets in paragraph 6(a) of the draft Preface appears to be inconsistent with the comment in paragraph 9 that IFRS are designed to apply to the financial statements of *all* profit-oriented entities.
6. We accept that the Board's priority should be ensuring that the financial statements of profit oriented entities are high quality, transparent and comparable. However, we suggest that paragraph 6 (a) of the draft Preface should also refer to the need for financial statements-as well as accounting standards- to be *understandable* to users.

7. On balance, we agree that the Board should not presently assume responsibility for financial reporting standards in the public and not-for-profit sectors. We support the work of the IFAC Public Sector in adapting international accounting standards for use in the public sector and believe that this should continue.

Use of Bold Type

8. We do not agree with the proposal to discontinue use of bold type. Use of bold and plain type on a consistent basis permits principles and supporting guidance and explanations to be distinguished in a clear, understandable and convenient manner, avoiding duplication. However, we agree that all styles of type used in a standard should have equal authority and that it is important to ensure that there is no misunderstanding on this point amongst constituents.
9. Further, we believe that developing standards on this basis is a good discipline for standard setters; there may otherwise be a tendency to lose clarity.
10. The Board should undertake a review of existing standards to identify any inappropriate use of bold and plain type as part of its improvements project.

Enforcement of IFRS

11. In paragraph 6(a), the Board notes that its objectives include the development of "enforceable" International Financial Reporting Standards (IFRS). In our view, the issue of enforcement is of primary importance: inconsistent enforcement is likely to undermine the credibility of the Board and its standards and diminish the prospects for global convergence. We believe that the Board has a role to play in encouraging consistent enforcement and that reference to the issue should be made in the Preface.

RESPONSES TO SPECIFIC QUESTIONS

Scope and Authority

- Q1 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?

12. Please see our comments in paragraphs 5 and 7 regarding the proposed scope of IFRS.

Q2 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?

13. We strongly welcome the proposal to provide guidance to illustrate the key principles in each standard and to explain the basis for the Board's conclusions. The provision of a detailed Basis for Conclusions should improve understanding of the Board's intentions, which should in turn encourage application of standards on a consistent basis. However, as set out above, we do not agree that the use of bold type should be discontinued.

Due Process

Q3 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?

- 14 We consider the Board's proposals on due process to be appropriate. We would however welcome clarification regarding the minimum period to be allowed for public comment on discussion documents, which, in our view, should certainly not be less than 90 days. We anticipate that a longer period may be necessary to provide sufficient time for the production of translations from the English language.

General

Q4 Are there any other matters that should be addressed in the Preface to IFRS?

- 15 In general, the contents of the draft Preface appear to be comprehensive except regarding principles rather than rules and the need for a true and fair view. We also suggest that the Preface clarifies the authority of IFRIC interpretations and IFRIC's terms of reference.