

4th February 2002

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

Dear Sir David:

The global organization of Ernst & Young is pleased to comment on the Exposure Draft, *Preface to International Financial Reporting Standards*.

Our comments to the questions presented in the invitation to comment are set out below.

Question 1 Scope and Authority

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?

We generally agree with the scope of the proposed Preface, specifically that IFRS are designed to apply to the financial statements of all profit-oriented entities. However, as we have previously commented to the IASB and its predecessor, the IASB must provide specific industry standards and guidance if it is indeed to be the global standard-setter that it envisages. In this regard, while we do not suggest that not-for-profit entities should currently be considered as a matter of priority, we believe that most existing Standards could apply to not-for-profit entities in the private sector as well as to profit-oriented entities. Not-for-profit entities in the private sector would fall outside the scope of the standards that are being prepared by the Public Sector Committee of the International Federation of Accountants, and, as a result, if not-for-profit entities in the private sector are excluded from the scope of IFRS, we are aware of no international standards or guidelines that would be applicable to them. In the future, for complete not-for-profit guidance, the IASB would need to address accounting for contributions received by not-for-profit enterprises, although that subject should not be an urgent priority for the IASB.

Paragraph 9 of the preface notes that profit-oriented entities include mutual insurance companies and “other mutual cooperative entities that provide dividends or other economic benefits directly and proportionately to their owners, member or participants.” It would be helpful to clarify this terminology with examples and to expand the discussion of “directly and proportional,” which appears to be quite restrictive.

Within the paragraph 11 discussion of a complete set of financial statements, IAS 34 is referenced as providing the applicable authority for condensed financial statements for an interim period. It would be useful to note that IAS 34 does not require the preparation of interim financial statements, but prescribes the minimum content when such statements are prepared.

The discussion on Scope and Authority would also be improved by clearly discussing the authority hierarchy of Standards, Interpretations, Appendices, Implementation Guidance issued by the IGC and any other materials published or planned to be published by the IASB or its staff. Although paragraph 11 of IAS 1 is clear that all Standards and all Interpretations must be complied with, the Preface does not address IGC Interpretations, and the guidance provided in “Status of the implementation guidance” (which precedes the IGC’s implementation guidance) is inadequate.

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?

We agree that the paragraphs in plain type included in Standards issued by the IASC cannot be ignored, and that fact should be clearly stated. We assume this is what is meant by the terminology “equal authority,” but would encourage the Board to include a more descriptive explanation in the Preface. However, with a principles-based approach to standard setting, with which we agree, we find the style of differentiating between the principles and guidance or application of the principles to be a useful distinction. We encourage the Board to maintain this distinction in new IFRS that it issues.

It is unclear from the proposed Preface whether or how the Board intends to retrospectively re-designate the styles of Standards issued by the IASC and how Appendices, which often contain examples and other illustrative guidance, would be affected. If the intent is indeed to recast all existing IAS into a single type style, a careful analysis of each IAS must precede any such re-designation. The first paragraph of each IAS states, “The *standards*, which have been set in

bold italic type, should be read in the context of the background material and implementation guidance...” (emphasis added). It is clear that when the IASC issued each IAS, much thought and discussion surrounded the distinction of the principles from the application of those principles. It would be inappropriate to change that designation without appropriate due process, including staff analysis, Board discussion and exposure of the proposed amendments to each IAS.

Question 3 Due Process

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?

We generally agree with the proposed due process. However, the due process discussion would be improved if the steps required by the IASC Constitution were separated from those that are not required, but which may be performed. Clarity also should be provided on the circumstances in which the Board would and would not expect to perform the non-mandatory due process steps. As a result of the increased momentum toward financial reporting in accordance with IAS around the world and as a result of the IASB’s transformation into an independent standard setter, the visibility and sensitivity of issues with which the IASB is dealing call for even more focus on thorough due process. In this regard, we believe that in most circumstances, all of the due process steps should be performed, except in the case of amendments to existing Standards for which discussion documents generally would be unnecessary.

In clearly distinguishing between the due process steps required by the IASC Constitution and those that are not, the Board should clarify the requirements of paragraphs 19(f) and 19(i). The inclusion of a basis for conclusions in both Exposure Drafts and Standards seems to be an explicit requirement of the proposed Preface, but paragraph 36(d) of the IASC Constitution states that “normally” bases for conclusions are issued. We strongly believe that each Exposure Draft and each Standard must include a basis for conclusions, an indication of individual Board member votes and any dissenting opinions of Board members. Further, we believe that the basis for conclusions in a Standard must include an analysis of the comments received in response to the Exposure Draft and must discuss how the Board responded to those comments.

The Preface also should discuss a minimum exposure period for discussion documents, Exposure Drafts and Interpretations. We believe that 180 days is the minimum exposure period to ensure adequate due process, although exceptional circumstances may sometimes call for a shorter period. As the Board is well aware, English is not the native language of many of its constituents, and adequate exposure periods are therefore critical to ensure appropriate due process.

The Preface also should more clearly address the effective dates of new Standards. It should clearly state that, other than in exceptional circumstances, the effective dates of Standards will provide an appropriate time period between the date of issuance and the effective date for translation of the Standard and for properly considered implementation, including modifications to financial accounting and reporting information systems.

Question 4 ***Are there any other matters that should be addressed in the Preface to IFRS?***

As noted in our response to Question 3, paragraph 19(f) of the proposed Preface appears to explicitly require Exposure Drafts to include a basis for conclusions and dissenting opinions held by Board members (although also as noted in our response to Question 3, there may be a conflict with the IASC Constitution on this matter). This Exposure Draft of the Preface, however, has been issued without a basis for conclusions and without an indication of the Board votes and any dissenting opinions of Board members, which appears to contradict the due process requirements of the proposed Preface itself. We are very concerned about this precedent and urge the Board to rectify this situation by immediately issuing any dissenting opinions and a basis for conclusions on the proposed Preface before proceeding to a final issuance.

In addition, a thorough comparison of the proposed Preface and the IASC Constitution should be performed. We noted several instances in which language in the proposed Preface, which appears to have been replicated from the Constitution, differs somewhat from the Constitution. For example, paragraph 6(c) of the proposed Preface states that the objectives of the IASB are “to work actively with national standard setters to bring about convergence of national accounting standards and IFRS to high quality solutions.” However, the similar paragraph 2(c) of the Constitution does not include the requirement “to work actively with national standard setters.” When the proposed Preface replicates the Constitution, it should do so exactly. In addition, specifically with respect to paragraph 6(c) of the proposed Preface, we question whether working with national standard setters is an objective, and suggest that the phrase be removed from paragraph 6 of the proposed Preface. We observe that the concluding sentence of paragraph 7 of the proposed Preface already notes that the IASB will work with national standard setters to maximize convergence. Other examples of situations in which the proposed Preface does not align with the Constitution include paragraph 2 and paragraph 6(a).

Consistent with the Framework, the Preface should clearly state that the Standards, Interpretations and other guidance issued by the IASB are designed to provide financial information that presents fairly (or gives a true and fair view of) the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.

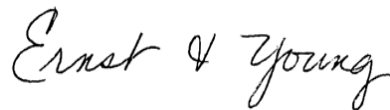
Finally, companies need clarity regarding the appropriate reference and terminology to use when describing their financial statements as complying with Standards and Interpretations issued by the IASB and IFRIC and their predecessors. Specifically, paragraph 16 of the proposed Preface and paragraph

11 of IAS 1 will require clarification. Auditors will face the same issue when writing their audit reports because, as the Board is aware, International Standards on Auditing require the identification of the body of accounting standards used to prepare the financial statements on which the auditor is reporting. Although these are practical issues that companies and their auditors face, we also note our dissatisfaction with the decision to change the title of International Accounting Standards to International Financial Reporting Standards, the title of Interpretations to Abstracts and the title of the Standing Interpretations Committee to the International Financial Reporting Interpretations Committee without public comment. International Accounting Standards and SIC Interpretations were terms that were well understood and succinctly conveyed compliance with Standards and Interpretations of the IASC/IASB. Changing these terms has unnecessarily caused confusion without any perceived benefit to users or preparers of financial statements.

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We would be pleased to discuss our comments with the Board or staff at your convenience. Please contact Danita Ostling at 0207 951 8772.

Yours very truly,

The signature is written in a cursive, handwritten style. It reads "Ernst & Young" in a fluid, connected script. The "E" is large and loops around the "&". The "Y" is also large and loops around the "g".