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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Dear Sir,

Exposure Draft to a proposed Preface to International Financial Reporting Standards

I would like to make the following comments on this exposure draft:

Points of substance

Your question 1: scope

I feel that it would be helpful to state that the term 'general purpose financial statements' does not include statements drawn up for taxation purposes and that they are not intended to show the entity's position in the event of its liquidation or its value in the event of a sale.

Your question 2: black letter standards (paragraph 14)

I do not agree that:

- (i) In the IASC standards, the paragraphs in bold type and those in plain type should have equal authority;
- (ii) For future IASC standards, this distinction should be dropped:

I believe that, having the main principles emphasised in bold type is helpful for standard-setters, users and teachers, in that it helps standard-setters in developing a standard to concentrate on the important issues, users in applying a standard to know what are the fundamental points and teachers to concentrate on the essential matters that students should know. In recent years, standards have grown ever longer, culminating in IAS 39 which has over 170 paragraphs. It is extremely unhelpful to readers to prescribe that each of these paragraphs is of equal importance and authority. In fact this would encourage readers to adopt a 'cook-book' approach to the application of accounting standards, that all they need to do is to find the one paragraph that refers to their particular problem and apply it to the letter. Users should be encouraged to understand the principles behind the standards and work out for themselves how to apply these principles to their particular situation. Such an approach is of

particular importance in the education of the next generation of accountants. The IASB should frame its standards in a way that facilitates the teacher's task.

There is a further reason why I consider that it would be wrong and dangerous to apply the proposed rule to the IASC's standards. When these standards were developed using the IASC's due process, everyone involved in the process (for example, organisations responding to exposure drafts and board members voting on proposed standard) were aware of the distinction between the two categories of paragraph and took it into account in their actions. In effect, in proposing to remove the distinction, the IASB is proposing to modify, in one fell swoop, some forty IASC standards. I do not dispute that the IASB, after due process, has the right to modify these standards. But I do question most seriously that it is appropriate for it to do so in the 'catch-all' way that it is proposing. I doubt very much that the IASB has analysed carefully each IAS to assess the impact of the proposed modification. The financial community must be given the opportunity to comment on the proposed amendments, on a standard by standard basis.

Authority of the IASB's standards

The old preface had a most useful (and revealing) paragraph on the authority of the IASC's standards. I feel that it is a pity that the IASB has not seen fit to include an equivalent paragraph in the revised preface. Of course it would differ from the former paragraph, for example in referring to the European Union's proposals and to cooperation with national standard-setters. I feel that drafting such a paragraph would be a useful exercise for the members of the IASB as it would concentrate their mind on their body's authority and the task confronting it. Such a paragraph would also be most helpful to the reader in understanding the nature of the IASB's standards.

Authority of the preface

The preface does not make very clear what authority is to be given to its provisions. Is it the equivalent of a standard? The only reference that I can find is in paragraph 14, that an individual standard 'should be read in the context of the preface'. I am not sure what this means. For example, paragraph 18 states that standards need not be applied to immaterial items. This sounds very much like a rule that is intended to have the same authority as a standard. If this is the case it should be made clearer. I feel that this particular rule is framed in a thoroughly inadequate fashion in that it does not define 'immaterial'.

Matters of drafting

Paragraph 19

I feel that the present draft of paragraph 19 is ambiguous and unclear. In particular the words, 'but not necessarily' introduce an element of uncertainty. The draft attempts to explain this by adding an asterisk to the steps that are 'required' - but this introduces further problems:

Firstly not all the points referred to in the marked paragraphs are 'required' under the

constitution:- for example it is not a requirement to consider comments on, discussion documents as these are only 'normally issued' and there is no requirement in the constitution to explain how the board dealt with comments.

Secondly, there is no requirement that the board issue a standard. It is my understanding that the board may break off the process at any time, for example if the comments on the exposure draft are very negative.

I feel that the wording of paragraph 19(i) should be reviewed. I am very much in favour that dissenting opinions should be published and preferably in conjunction with the standard (as is the practice of the UK's ASB). However I do not agree that they should be '*included in*' the standard as this would render the standard ambiguous.

Finally a point of substance. I feel that the steps in paragraph 19 should include the formal decision of the board to place a topic on its agenda.

The organisation's name

I would urge you to agree on the organisation's name. Paragraphs 19 and 20 refer to the IASC but elsewhere reference is to the IASB. In fact paragraph 1 of the body's constitution states that the name is the IASC. and paragraph 2 lists its objectives. Hence, in paragraph 6 of the draft preface, it is formally incorrect to refer to the IASB. It is my understanding that the term 'IASB' refers to the fourteen member board. Hence the IFRIC is not part of the IASB and the heading of paragraphs 19 and 20 is wrong. This confusion does no credit to the organisation.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'JF', with a long horizontal line extending to the right.

John Flower

formerly professor of Accounting, University of Bristol, and Director, Centre for Research in European Accounting, Brussels