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17 January 2002

Dear Mr Stevenson

Exposure Draft - Preface to International Accounting Standards

We are responding to your invitation to comment on the proposed Preface to International Accounting Standards on behalf of the worldwide organisation of PricewaterhouseCoopers.

We support the Board in conducting a review of the Preface to reflect its new mandate and the time that has passed since the previous Preface was issued. However, we believe that some important issues have not been addressed in this initial draft and that further consideration is necessary before it is finalised.

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?

We agree that the proposed scope is clearly defined. However, the objective would be clearer if it identified that the standards are designed for general purpose financial statements intended to give a true and fair view (or fairly present).

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We are not convinced that the scope fully meets the objective that has been set out in Paragraph 6 (a). Not-for-profit organisations raise money from the capital markets of the world and provide financial information to other users that make economic decisions. Thus we do not believe that it is appropriate to scope these out of the Board's objectives. Nor do we believe that state entities (for example central banks) that raise funds from the capital markets should be excluded.

We believe that it is appropriate for the Board to establish its initial priorities excluding not-for-profit entities and for the Public Sector Committee of IFAC to continue to develop the IAS standards for government and other public sector non-business entities. But the Board should not abrogate its responsibilities in this area in perpetuity. In the interim the Board should indicate when it considers a requirement not to be appropriate for a not-for-profit entity.

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 bold and grey text should have equal weight. However, we do not believe that it is appropriate for the Board to abandon the use of bold and grey text paragraphs within its standards.

We believe that the use of bold and grey text makes it easier to read, understand and explain the standards and to see how to apply the standards to different circumstances. Further, we believe that it is a good discipline for a Board that sets standards to have to identify the key principles it is putting forward separately from detailed requirements and supporting explanations and guidance.

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This approach is consistent with International Standards on Auditing. Their preface concludes that bold text does bring clear benefits and that the whole text must always be considered.

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 proposals unnecessary? Are there additional steps that should be incorporated?

In general the proposed process is appropriate. However, the Board should add guidance on the normal minimum period for consultation on a discussion paper and an exposure draft. We suggest a minimum of 90 days, but this may need to be longer for particularly complex proposals, especially if they need to be field-tested.

The Preface should include an important principle that changes to standards will not generally be made during the financial year in which they are to be applied, as this has a very detrimental effect on communications between entities and the capital markets. In extreme circumstances, late changes may be necessary and should be permitted where a fundamental problem has escaped the earlier due process, but such events should be very rare.

Comment periods for IFRIC materials should also be addressed in the Preface in a similar way, although a minimum comment period of 60 days may be appropriate for an urgent issue.

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Question 4

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

Focus on principles

The draft Preface identifies the key objective of developing standards to require “like transactions and events to be accounted for and reported in a like way” (paragraph 13) and that standards should reflect a “consistent and logical formulation” (paragraph 8). We presume that this means that the standards shall be based on principles rather than individual rules for every occasion. However, this is of such importance that this key statement should be identified explicitly within the Preface.

Enforcement of IAS/IFRS

The IASB has as its objective “enforceable” standards. However, the proposed Preface does not comment on the issue of enforcement, or the very significant risk that the Board’s standards will be discredited if enforced inconsistently around the world.

The Board must play a part in the enforcement process. For example, it should set itself an objective of establishing close links with those in the auditing profession that provide the first element in an external enforcement process. In addition, the Board should have an objective of regular communications with enforcement agencies and stand ready to assist enforcement agencies to resolve their difficult IAS issues in a consistent way.

Use of “shall” in the text of IAS

We believe the Preface should indicate that the use of “shall” in standards means that compliance is required if an entity is to claim to be in full compliance with IAS.

Standing and scope of IFRIC interpretations

The proposed Preface does not make clear the standing of documents issued by IFRIC. In paragraph 15 it refers to interpretations as “authoritative guidance” whilst in paragraph 2 they are referred to as “interpretations”. The new working arrangements mean that all IFRIC interpretations will have been voted upon by the full Board requiring the same majority as IFRS themselves. Thus the consensus paragraphs of the interpretations should have the same standing as black or grey letter text in the standards themselves.

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Hierarchy of material issued by the Board

We believe that it would be helpful to expand the Preface to explain the hierarchy of the different material produced by the Board. We understand that the Board may incorporate this into IAS 1, but believe that it would be appropriate material for the Preface. This should cover the standing of the basis for conclusions and implementation guidance and other appendices.

We believe that implementation guidance should be relatively rare. Further, recent experience with the IAS 39 guidance suggests that a more extensive due process would be appropriate.

Finally, we believe the Preface should make clear that the Board does not provide a definitive consultation service with the general public and that conversations with staff are not authoritative or binding.

If you have any questions in relation to this letter please do not hesitate to contact Jochen Pape (49 211 981 2905) or Ian Wright (44 207 804 3300).

Yours sincerely



PricewaterhouseCoopers