

Dear Sir,

The AFEP-AGREF appreciates the opportunity to offer its views on the proposals in the “Exposure Draft of a Proposed Preface to IFRS” and to set out the position expressed by its members.

There are some issues we would like to bring to your attention.

Scope of IFRS and Interpretations

Consolidated financial statements

Paragraph 10 sets out that IFRS apply to general purpose individual or consolidated financial statements.

We believe that the determination of which financial statements should be drawn up according to IFRS is a matter for regional and national institutions.

Furthermore, due to the different status of the two sets of financial statements in many jurisdictions, we believe it would be more appropriate to omit the word “individual” in this sentence. We wish to emphasize that many EU Member states and the EU draft regulation on IAS/IFRS do not require, or even permit, companies to apply IAS/IFRS in their individual financial statements.

Accordingly therefore the first sentence should read as follows: “IFRS *are designed to* apply to general purpose consolidated financial statements.”

Sir David Tweedie
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Interim financial statements (§11)

We support the proposal in paragraph 11 to emphasize that “In the interest of timeliness and cost considerations (...), an entity may provide *less information* in its interim financial statements than in its annual financial statements”.

However we believe that the proposal should also include the principle in IAS 34.41 regarding the use of estimates: “(...) the preparation of interim financial reports generally will require a greater use of estimation methods than annual financial statements”.

Notion of profit-oriented entities

Paragraph 9 indicates that IFRS are designed to apply to the general purpose financial statements and other financial reporting of all “profit-oriented entities”.

With regard to the scope definition, as mentioned above, we believe that the determination of which financial statements should be drawn up according to IFRS is a matter for regional and national institutions.

However as the notion of profit-oriented entities is not defined and used under IASB standards, it may be useful to clarify, out of the preface, what impact, if any, it would have in the formulation of standards and what the rationale would be for using this notion.

Notion of activity and use (§13)

Paragraph 13 indicates “The IASB’s objective is to require like transactions and events to be accounted for and reported in a like way and unlike transactions and events to be accounted for and reported differently, both within an entity over time and among entities”.

The draft preface is not clear regarding the meaning of the terms “like” and “unlike”. However we wish to emphasize that we are opposed to the objective of requiring similar items to be accounted for and reported in a like way, regardless of the way they are used.

In classifying and measuring transactions, we find it essential to take into account the way business activities are managed and the way certain external factors may affect the results.

For instance we support the notion of category of assets used in IAS 39, based in particular on their maturity and on the linkage to liabilities. We also believe that the distinction between realized and unrealised gains and losses has informational value.

In our view an enterprise is a group of business activities which can be managed in different ways and with different timing prospects, as opposed, for example, to a set of components that would be managed in the short term. The way an asset is used should be taken into consideration in measuring that asset. As cash flows derive from the “asset/use” combination and the knowledge associated with the asset. It’s all the more appropriate because financial statements are directed towards the common information needs of a wide range of users, who also wish to assess the likely long term results of an entity.

General: Notions of use and user

Based on the examples given in paragraph 10, the notion of ‘users’ (Paragraph 6(a)) appears to be focused on participants in the capital markets other than the entity itself.

We believe that the Preface should be clarified to clearly include the management of an entity; as management is a key user of financial statements in making economic decisions. Also this calls for due consideration of enterprises in the development of standards and interpretations (see our comment under “due process”).

Furthermore we encourage the Board, when developing standards, to consider the implications of the fact that financial statements and ratios currently are used by companies and other users to assess the financial position and performance of contracting parties. It is both useful and inevitable that financial information is used in contracts or agreements as conditions or criteria. Failing this financial reporting would be stripped off one of its essential uses.

Therefore we believe that it is not only “up to the parties” to determine the effects of changes in reporting, as suggested in paragraph 22, especially with regard to potential long term effects.

Also this calls for the development of standards that can be well understood and applied on a long-term basis.

Due process

Composition of the IASB bodies / Comment periods

There is no discussion in the draft of the composition of the IASB bodies and of the minimum length of comment periods.

For the IASB to become a truly international organization, it is crucial that the composition of the Board, the IFRIC and advisory groups, as well as the process - including voting-, be suited to an international environment.

In particular the due process should enable companies, standard-setters and private institutions to closely follow the IASB developments and provide input, as it was the case under the previous IASC structure. This implies sufficiently long comment periods (generally 6 months) and enhanced information of “major IASB partners” (EFRAG, liaison standard setters and other "IASB partners") ahead of invitations to comment on published documents.

The 6 month reference should be specified in the preface.

More specific views on advisory groups are stated below.

Development of standards

Paragraph 19 indicates that “Due process for projects normally, but not necessarily, involves formation of an advisory group to advice to the Board on the project”.

In our view an enhanced consultation process would facilitate the applicability and acceptability of IASB standards and interpretations. It should necessarily involve publishing discussion documents and exposure drafts, and formation of advisory groups dedicated to each specific project, with the participation of enterprises.

Field testing should be conducted more frequently, and without exception when feasibility, practicability or reliability issues are raised ; as any such issue may affect the quality of financial reporting.

In this respect it should be noted that, according to the framework, reliability and comparability are two of the major qualitative characteristics that make the information useful to users.

The AFEP-AGREF would be pleased to discuss these comments further.

Yours sincerely



Patrick ROCHET