



*The South African Institute of Chartered Accountants
Die Suid-Afrikaanse Instituut van Geoktrooieerde Rekenmeesters*

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Sir David Tweedie
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Dear David

**EXPOSURE DRAFT OF A PROPOSED PREFACE TO INTERNATIONAL
FINANCIAL REPORTING STANDARDS**

In response to your request for comments on the exposure draft of a proposed Preface to International Financial Reporting Standards, I attach the comment letter prepared by the South African Institute of Chartered Accountants (SAICA).

We would like to thank you for the opportunity to comment. Please do not hesitate to contact me should you wish to discuss any of our comments.

Yours sincerely

Linda de Beer
PROJECT DIRECTOR – TECHNICAL

cc: Peter Wilmot (Chairman of the Accounting Practices Board)
Pat Smit (Chairman of the Accounting Practices Committee)

**COMMENTS ON THE EXPOSURE DRAFT
OF A PROPOSED PREFACE TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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?

The scope of IFRS, as set out in the proposed Preface, has been narrowed from what is currently set out in IAS 1 paragraph 4. IAS 1 suggests that the Framework can be applied by both profit-orientated enterprises as well as not-for-profit enterprises.

The IASB's objective, as set out in paragraph 6 of the proposed Preface, is *"to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards ... to help participants in the various capital markets of the world and other users of the information to make economic decisions"*. In light of this objective, IFRS should, in our view, be suitable for the preparation of all financial statements used in capital markets. Not-for-profit enterprises as well as public sector enterprises could fall within this category, particularly where loan finance as opposed to equity is being raised. IFRS should therefore have the aim to develop standards having regard to their use by such enterprises. In South Africa many entities prepare financial statements primarily to comply with statutory requirements. These financial statements are not filed on public record. In such cases IFRS would not be appropriate as such entities would find it difficult and costly to comply with IFRS.

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 find the text in the different styles, as currently presented in IAS, useful in determining the main principles of a standard. South African practice gives equal authority to all paragraphs.

A change away from the previous style could be an a format consisting of the following sections:

- a high level summary of the requirements of the standard;
- detailed requirements of the standard;
- the basis for conclusions;
- appendixes (if appropriate), which may include implementation guidance and examples.

Even though it would be more difficult to determine the major principles in the proposed new format, we would support the change. However, to avoid misunderstanding of the authority of the different sections of a standard (e.g. the high level summary could be interpreted to be the principles of the standard, whilst the rest of the text could be seen to have less authority, or to be additional guidance and examples only) the Preface and each standard should clearly state the compliance with the text of the standard is required and that guidance in the appendixes in “robust and useful”, not authoritative.

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

In our view, the Board's proposals regarding the due process are appropriate. We would like to emphasise that the Board should attempt to allow adequate comment period on exposure drafts. Comment period should not be shorter than 120 days except in exceptional circumstances. This will allow SAICA to communicate with its members and to collect and formulate a well-considered response to the IASB's exposure drafts.

Question 4

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

The role of accounting standards in financial reporting

The existence of high quality accounting standards is only one of the factors that contribute to sound financial reporting. Mere compliance with high quality accounting standards does not necessarily ensure high quality financial reporting, even though some market participants may have this perception. The auditing function, corporate governance, regulatory monitoring and the drivers of value in an enterprise (risks and other key indicators), all need to be considered by the users when evaluating a set of financial statements. This should be emphasised in the Preface to IFRS. The emphasis of financial reporting is correctly on achieving fair presentation, but the limitations of accounting standards in making investment and other decisions need also be highlighted.

Principle based approach versus a rules based approach

In our view accounting standards should focus on principles rather than rules for the recognition, measurement and disclosure of transactions. Principles should also be applied to evaluate circumstances as the so-called “cookbook” approach, and laying down of a “bright line” in accounting standards, often lead to legally structured transactions that comply with the standards, but do not achieve fair presentation.

Authority of Interpretations issued by the IFRIC

We agree with paragraphs 15 and 16. The IASB may want to consider including a clear statement to emphasise that guidance on authoritative extensions has the same authority as the Standards. The word “guidance” in South African technical literature, and perhaps other territories, is usually indicative of non-compliance recommendations.

Consequential amendment to existing IAS

As a consequence to the Preface being issued, the terminology and content of certain of the existing IASs need to be aligned with this document.

Editorial changes

The last sentence in paragraph 5 should be amended to read as follows:

“Thus, the IFRS and Interpretations referred to in this Preface include the Standards and Interpretations issued prior to 2001 ...”