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International Accounting Standards Board
30 Cannon Street
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Dear Sirs

EXPOSURE DRAFT OF A PROPOSED PREFACE TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

We welcome the opportunity to comment on the above exposure draft. Our general and detailed comments are set out below.

1 GENERAL

We largely support the draft preface although we believe that there are some issues that require greater emphasis and others that require clarification. For example, we note that:

- paragraph 9 omits “not for profit” entities from the scope of the preface. This does not seem appropriate as we believe that its basic concepts should be applied to all entities that are preparing “true and fair” accounts;
- the preface does not include the concept of a “true and fair override”. We believe that the preface should cover these despite their rare occurrence;
- paragraph 10 says that IFRSs apply to all “general purpose individual or consolidated financial statements” and paragraph 11 says that “financial statements” means “a complete set” of such statements. We suggest that the IASB clarifies this definition so that it specifically excludes management commentary which does not come within the IASB’s remit; and
- paragraph 24 implies that there may be more than one approved translation process. We do not agree with this. To avoid possible, (albeit subtle), inconsistencies between “recognised” translated texts it is vital that there is only one version of the IFRS in any particular language. Any other approach could lead to a divergence in application rather than convergence.

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We support the proposal to issue future International Accounting Standards under the title of “International Financial Reporting Standards” whilst retaining existing International Accounting Standards under that title. This will help identify those standards that have been revised or issued by the IASB and those that may still need to be revised.

2 SPECIFIC COMMENTS

2.1 Scope and Authority

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 sec/or entities, other than government business enterprises, based on IFRS.

Is the Board proposed scope clearly defined and appropriate?

We agree that IFRSs should apply to all general purpose financial statements of profit orientated entities which intend to give a true and fair view. However, we also believe that they should be applied to “not-for-profit” entities so long as relevant specific guidance, (for example a Statement of Recommended Practice or its international equivalent), is referred to on particular issues relating to specialised industries or public sector entities.

Therefore, we believe that the scope of the preface should be expanded and also made consistent with the rest of the preface. For example, paragraph 6 refers to the IFRSs being developed in the “public interest” which suggests they should be applied to all “public interest” entities. By implication, this may include “not-for-profit” entities but this disagrees with the scope currently given in paragraph 9.

Although we support the application of IFRSs to all general purpose financial statements, we would urge the IASB to consider their appropriateness to smaller entities. It is most likely that IFRSs will be predominantly written from the perspective of “large” entities yet it is almost inevitable that smaller entities will have to follow IFRSs in the future. Therefore, unless the impact of IFRSs is considered on smaller entities, problems will arise when they ultimately have to apply them.

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 strongly disagree with this proposal and believe it to be a retrograde step.

Including principles in bold in accounting standards has proved useful to accounts preparers. This is because this approach gives a clear hierarchy of interpretation within an accounting standard. We therefore strongly believe that the principles in the IFRSs should continue to be emboldened. The non-bold explanatory detail should then not stand in isolation but clearly interpret (and not revise) the bold paragraphs. Emboldening the principles can only assist those applying IFRSs to account for transactions in line with their underlying substance. This is preferable to encouraging the application of a set of rules.

Accordingly, we would suggest that the IASB continued to show principles in bold and added an introductory explanation to each standard along the lines of the one used by the ASB, ie "The explanatory paragraphs contained in the IFRS shall be regarded as part of the standard."

2.2 Due Process**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?

We agree with the due process that has been proposed in the Preface. However, although we recognise that the appropriate comment period on proposals will depend on the material concerned, it may be helpful to indicate a minimum comment period of say 120 days.

2.3 General**Question 4**

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

No, other than the matters referred to in section 1 of this letter.

We hope that the above comments are of assistance and we would be pleased to discuss them further with you.

Yours faithfully



BDO Stoy Hayward

cc Accounting Standards Board, Holborn Hall, 100 Gray's Inn Road, London WC1X 8AL