

British Broadcasting Corporation Room 3515 Broadcasting House Portland Place London W1A 1AA  
Telephone 020 7765 1299 Fax 020 7765 1177



Director of Finance, Property & Business Affairs

15 January, 2002

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

iasbpreface@asb.org.uk

Dear Mr Butcher,

**Exposure draft: Preface to International Financial Reporting Standards (IFRSs)**

I write in response to the ASB's request for comments on the above exposure draft, about which I have a principled reservation.

**Scope of IFRSs**

I am concerned that the draft proposes to limit the scope of IFRSs to 'profit oriented' entities. In an age when we are striving to move towards harmonisation of accounting standards it is odd to immediately restrict the scope of these standards to such an extent. There are probably good reasons for needing to tread with caution in some areas of the not for profit world, but the IASB should put down a marker, in its general aims, of a trajectory of harmonisation which is inclusive of not for profit organisations.

If standards contain sensible financial reporting principles, I see no reason why these cannot be capable of application across a wider range of entities, whether in the public or private sector.

As a secondary point, by restricting the scope to profit oriented entities, the preface fails to address the situation whereby an entity may be undertaking a mixture of activities of which only some are 'profit oriented'. The BBC is such an entity.

***'Black letter' style standards***

Although I personally disagree with the IASB proposal to abolish the use of black type, which has been good in highlighting key principles, I think this is a matter of detail best left to the officials.

Yours sincerely,

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

**John Smith**  
**Director of Finance, Property & Business Affairs**

**CIPFA COMMENTS ON  
EXPOSURE DRAFT OF  
PREFACE TO INTERNATIONAL  
FINANCIAL REPORTING  
STANDARDS**

JANUARY 2002



CIPFA is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulations through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work (often at the most senior level) in public service bodies, in the national audit agencies and major accountancy firms. They are respected throughout for their high technical and ethical standards, and professional integrity. CIPFA also provides a range of high quality advisory, information and training and consultancy services to public service organisations. As such, CIPFA is the leading independent commentator on managing and accounting for public money.

contact: John Stanford  
Assistant Director  
Policy and Technical  
CIPFA  
3 Robert Street  
London, WC2N 6RL  
  
e-mail [john.stanford@cipfa.org](mailto:john.stanford@cipfa.org)

## CIPFA RESPONSE ON EXPOSURE DRAFT OF PREFACE TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

### 1 INTRODUCTION

CIPFA welcomes the opportunity to comment on the exposure draft of the International Accounting Standards Board's Preface to International Financial Reporting Standards (IFRSs). CIPFA has comments both on the specific issues for comment and some further points about the wording and structure of the document.

### SPECIFIC ISSUES FOR COMMENT

#### 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?

- A (a) *The Board's proposed scope appears to be clearly defined.*
- (b) *Partially. CIPFA agrees that it is appropriate to acknowledge the role of the International Federation of Accountants Public Sector Committee (IFAC PSC) in developing accounting standards for the public sector (except government business enterprises). The IASB has close links with the IFAC PSC and in this respect the IFAC PSC chair's membership of the Standards Advisory Council and the identification of a specific member of IASB as liaison with the IFAC PSC are particularly important. In the longer term there may be a case for the IASB to enter into a more formal governance arrangement with the IFAC PSC. This will of course depend upon other decisions about the future governance framework of the IFASC PSC. Because the IFAC PSC's core set of standards are based on IAS extant at 30 August 1997 and future revisions as a result of the improvements project will impact upon the work of IFAC PSC it might be worth formally asking the IFAC PSC if there are public sector implications associated with issues on which interpretations are to be released.*

*However, the IASB should reconsider whether the scope of its standards should include charities and other non-governmental non-profit organisations that will fall outside the remit of both sets of standards. Although the IASB may not see this sector as important, in some jurisdictions it may be a significant area of economic activity. Many such organisations are becoming increasingly international in their outlook and operations and international aid agencies and development banks are likely to look increasingly towards the use of a reliable set of international accounting standards for such bodies.*

*In this context we note that the current IASC “Preface to Statements of International Accounting Standards” does not limit the scope of application of IAS to profit orientated entities. In the UK, the ASB’s “Foreword to Accounting Standards” notes that the prescription of accounting standards for the public sector is a matter for Government. Nevertheless, the Foreword also refers to an expectation that, where public sector bodies prepare annual reports and accounts on commercial lines, the Government’s requirements “will normally accord with the principles underlying the Board’s pronouncements. A similar reference might usefully be inserted into the IASB’s “preface”, possibly by way of a strengthening of the wording in paragraph 9. We also note that the G4+1 Discussion Paper, “Accounting by Recipients for Non-Reciprocal Transfers, Excluding Contributions by Owners”, published in 1999, considered the not-for-profit sector in some detail.*

## 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?

- A *Disagree. CIPFA supports the position of the ASB in PN 193. Whilst sharing the view that compliance with a standard requires compliance with all parts, CIPFA considers that black letter/grey letter format provides benefits for both standard-setters and users. For the former the current format imposes a need for clarity and conciseness. For the latter the format brings together both standards and commentary in one volume and enhances understandability. We feel that the IASB proposals imply the development of longer standards along the lines of a “rules-based” approach and do not support such a route.*

*From a public sector perspective the use of the black letter/grey letter approach in the IFAC PSC’s IPSASs has also been successful. It is likely that the IFAC PSC would come under pressure to adopt the same format as that for IFRSs. Abandoning the current approach is likely to make IPSASs less accessible for jurisdictions planning to move to the accruals basis of accounting.*

## 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?

- A *The due process outlined appears generally appropriate and comprehensive. We have some comments relating to the sequence of the steps in the due process (see below general comments on paragraph 19).*

*We have suggested at Question 2 that step 5 in the development of interpretations might include the IFAC PSC.*

#### Question 4

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

A *We are not aware of any further issues.*

#### OTHER POINTS

We have the following general points about the structure and wording of the document.

Paragraph 1 *A brief explanation of who 'The Trustees' are might be appropriate. This might be by way of a high level organisation chart of the new structure.*

*The last sentence would read better if reversed. "The IASB is responsible for ..." In addition, IASB is presumably responsible for issue as well as approval.*

Paragraph 3 *The second sentence is cumbersome. Giving advice to IASB is not an objective, but a process.*

Paragraph 4 *Second sentence needs grammatical modification —*

- *either Agreement & Constitution = 1 document therefore **was** signed*
- *or 2 documents therefore Agreement and **a** Constitution.*

Paragraph 6 *This is probably a quote, but it might benefit from a reformulation:*

- *high quality used 3 times. It is not really appropriate to talk about 'high quality' information. The criterion for the inclusion of information in most financial statement disclosures is relevance.*
- *the word 'presentation' needs inclusion in (a) — IFRS require **presentation** of information not just information.*
- *In the light of the later references to the not-for —profit sector some reference could also be made to stewardship, which includes compliance with law. This is relevant to all entities.*

Paragraph 7 *Line 4 should read 'outside general purpose financial statements'. Unclear what 'a complete set of financial statements' is and whether it is the same as 'general purpose financial statements'.*

*Line 6 'Efficient' is an odd word. It would be better to use 'informed'.*

Paragraph 8 *Existing IAS are written for entities operating in specific industries (eg IAS 26) not just for transactions and events.*

*Suggest adding to last sentence 'not specifically covered by standards'.*

Paragraph 9 *Line 8 We feel that the section on the public/not-for —profit sector should be revised. It is generally the entity not the activity to which IFRS might be applicable and the decision on whether they are ‘appropriate’ is generally made by standard-setters not by individual entities. We suggest the following revision:*

*“Although IFRS are not designed to apply to government, other public sector entities or not-for-profit entities in the private sector, they may be appropriate, wholly or partially, for such sectors.”*

*This then leads on better to the examples, one of adoption and one of adaptation.*

Paragraph 10 *Last section could also mention ‘demonstration of stewardship’.*

Paragraph 13 *A requirement is not really an objective. The objective is to promote comparability. This is done by requiring .... ‘Unlike transactions and events’ is a crude term. It might be better to omit this clause.*

*Last sentence should either read of the Preface’ or ‘Objectives stated in that standard and in the Preface’.*

Paragraph 15 *Suggest putting ‘in the absence of such guidance’ after ‘likely’.*

Paragraph 19 *Omit ‘international’. This is covered by the phrase from around the world’.*

*Sentence on consultation with SAC is duplicated on next page (item c). If this is the first step in identifying a topic then it should be listed as (a) — if not, then the list should start with identification of the topic.*

Paragraph 20 *Omit ‘international’ as in para. 19.*

*Considerable and understandable duplication with para 19. Some cross-reference could be made, especially in the first sentence.*

Paragraph 22 *Last line — suggest financial situation: Position has another meaning.*

Paragraph 23 *Word ‘approve’ is used 3 times resulting in confusion.*

*Suggest ‘the approved test .... is that issued (published) by IASB..... The IASB may authorise translations.. ’*



22<sup>nd</sup> January 2002

The Technical Director  
Accounting Standards Board  
Holborn Hall  
100 Gray's Inn Road  
London  
WC1X 8AL

Dear Sir

**Draft Preface to International Financial Reporting Standards**

We are writing in response to your invitation to comment on the above draft.

In general, we have a preference for the current style of standards including the use of bold type, grey text and similar presentation issues to facilitate reading of the relevant standards.

In situations where more than one accounting treatment is allowed, but there is a benchmark treatment, our view is that there ought to be a disclosure requirement in the relevant report in situations where the benchmark treatment is not followed. This would have the effect of encouraging convergence towards the benchmark standard.

In answer to the specific questions raised, we have the following observations:

Question 1.

**Is the Board's proposed scope clearly defined and appropriate?**

We believe the scope correctly includes the mutual sector and is appropriately and clearly defined.

contd overleaf /

Question 2.

**Do you agree with these proposals?**

We believe that there is value in establishing a comprehensive hierarchy of bold text, grey text, interpretations issued, guidance documents issued (where appropriate), and similar items to give further clarity to readers of standards.

Question 3.

**Are the Board's proposals appropriate? Are any proposed steps unnecessary? Are there additional steps that should be incorporated?**

We believe that the proposed steps are appropriate.

Finally, we have a concern that there is no statement in the Preface reflecting the intention that standards will be developed on the basis of principles rather than rules.

We would be happy to discuss any of these comments further.

Yours faithfully

Rosemary P Thorne  
**Chairman**  
**100 Group Technical Committee**

**Please contact me at**  
Bradford & Bingley plc  
6 Bennet Street  
London  
SW1A 1RL  
Tel. 020 7298 5012

**TECH 2/02**

**PREFACE TO INTERNATIONAL  
REPORTING STANDARDS**

*Memorandum of comment submitted to the Accounting Standards Board  
in January 2002 concerning the exposure draft, 'Preface to International  
Financial Reporting Standards, published by the International Accounting  
Standards Board in November 2001*

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## **INTRODUCTION**

1. The Institute of Chartered Accountants in England & Wales welcomes the opportunity to respond to the Accounting Standards Board regarding the exposure draft, 'Preface to International Financial Reporting Standards', published by the International Accounting Standards Board (the Board) for comment in November 2001.
2. We welcome the development by the Board of an updated and revised Preface. We have reviewed the exposure draft and set out below a number of comments. We deal first with significant matters before commenting on the specific issues raised in the exposure draft.

## **MAJOR POINTS**

### **Principles and Not Rules**

3. In paragraph 13 of the draft Preface, the Board states that its objective "is to require like transactions to be accounted for and reported in a like way and unlike transactions and events to be accounted for and reported differently". We fully support this objective, which in our view underlines the fundamental importance of adopting an approach to the development of standards that focus on principles, drawn clearly from the Board's conceptual framework, rather than on detailed rules. We recommend that a clear statement of the Board's intentions in this area is included in paragraph 8 of the Preface, together with clarification of the relationship between the principles expressed in the Framework and those set out in IFRS.

### **True and Fair View**

4. In our view, the failure to identify in the draft Preface the overarching need for financial statements to provide a 'true and fair view' is a fundamental omission. Whilst reflected (by the requirement for 'fair presentation') in other material published by the Board, we believe that explicit reference should be made to the concept of true and fair in the Preface in, for example, paragraph 10.

### **Scope of IFRS**

5. We recommend that the Board develops clearer guidance on the intended scope of IFRS. The emphasis on the capital markets in paragraph 6(a) of the draft Preface appears to be inconsistent with the comment in paragraph 9 that IFRS are designed to apply to the financial statements of *all* profit-oriented entities.
6. We accept that the Board's priority should be ensuring that the financial statements of profit oriented entities are high quality, transparent and comparable. However, we suggest that paragraph 6 (a) of the draft Preface should also refer to the need for financial statements-as well as accounting standards- to be *understandable* to users.

7. On balance, we agree that the Board should not presently assume responsibility for financial reporting standards in the public and not-for-profit sectors. We support the work of the IFAC Public Sector in adapting international accounting standards for use in the public sector and believe that this should continue.

#### **Use of Bold Type**

8. We do not agree with the proposal to discontinue use of bold type. Use of bold and plain type on a consistent basis permits principles and supporting guidance and explanations to be distinguished in a clear, understandable and convenient manner, avoiding duplication. However, we agree that all styles of type used in a standard should have equal authority and that it is important to ensure that there is no misunderstanding on this point amongst constituents.
9. Further, we believe that developing standards on this basis is a good discipline for standard setters; there may otherwise be a tendency to lose clarity.
10. The Board should undertake a review of existing standards to identify any inappropriate use of bold and plain type as part of its improvements project.

#### **Enforcement of IFRS**

11. In paragraph 6(a), the Board notes that its objectives include the development of “enforceable” International Financial Reporting Standards (IFRS). In our view, the issue of enforcement is of primary importance: inconsistent enforcement is likely to undermine the credibility of the Board and its standards and diminish the prospects for global convergence. We believe that the Board has a role to play in encouraging consistent enforcement and that reference to the issue should be made in the Preface.

#### **RESPONSES TO SPECIFIC QUESTIONS**

##### **Scope and Authority**

- Q1 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?*

12. Please see our comments in paragraphs 5 and 7 regarding the proposed scope of IFRS.

- Q2 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?*

13. We strongly welcome the proposal to provide guidance to illustrate the key principles in each standard and to explain the basis for the Board's conclusions. The provision of a detailed Basis for Conclusions should improve understanding of the Board's intentions, which should in turn encourage application of standards on a consistent basis. However, as set out above, we do not agree that the use of bold type should be discontinued.

### **Due Process**

- Q3 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?*

- 14 We consider the Board's proposals on due process to be appropriate. We would however welcome clarification regarding the minimum period to be allowed for public comment on discussion documents, which, in our view, should certainly not be less than 90 days. We anticipate that a longer period may be necessary to provide sufficient time for the production of translations from the English language.

### **General**

- Q4 Are there any other matters that should be addressed in the Preface to IFRS?*
- 15 In general, the contents of the draft Preface appear to be comprehensive except regarding principles rather than rules and the need for a true and fair view. We also suggest that the Preface clarifies the authority of IFRIC interpretations and IFRIC's terms of reference.

The following are the comments of the Accounting Committee (AC) of the Institute of Chartered Accountants in Ireland (ICAI) on the Exposure Draft of a proposed Preface to International Financial Reporting Standards issued by the IASB on 8 November 2001.

AC welcomes the publication of the Draft Preface as there is a need for greater clarity of the due process through which IFRS are developed and the format of its standards. This is particularly important given the commitment to convergence on internationally agreed standards.

The following are the detailed responses to the issues raised by the Board in the invitation to comment.

### **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?*

### **Response:**

AC understands the scope as proposed by the Board and agrees that profit orientated entities must be the priority.

Paragraph 9 states that IFRS are designed to apply to all profit-orientated entities but not to not-for-profit entities or government. IFAC is currently developing a body of standards appropriate for government this leaves not-for-profit entities in limbo without a body of standards which should be applied in the preparation of their financial statements.

Consequently, there may be some merit to suggesting in paragraph 9 that not-for-profit organisations are advised to apply the standards and disclose which standards or aspects of standards are not in fact followed in the preparation of their financial statements. This is to give some guidance to users of not-for-profit financial statements as to what methods have been used in the preparation.

### **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 type 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.*

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*Do you agree with these proposals?*

Why or why not?

**Response:**

AC agrees that paragraphs in bold italic type and plain type have equal authority. However AC believes that this can be catered for by making a general statement to that effect at the beginning of each standard.

The use of bold italic type has served well in highlighting the general principles contained in a standard and helps the reader to focus on same. AC disagrees with Paragraph 14 where it is said that future standards issued by IASB should discontinue this distinction. We would support the continued use of bold italic to highlight general principles with supplementary guidance etc in regular print. However we support the principle that regular paragraphs giving application guidance have equal authority with the bold italic principles.

**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?*

**Response:**

Dealing with paragraph 19 initially, it is considered that all necessary steps are included, however AC considers point (b) would benefit from the addition of “including national committees that have responsibility for national standards” as is consistent with paragraph 20(b) lines 3 and 4.

Paragraph 20 is considered to be satisfactory except that it would be useful if the steps specified a minimum period for comment.

**Question 4**

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

**Response:**

Paragraph 12 states that there may be the existence in Standards of a “benchmark treatment” and an alternative treatment. This should be discouraged in the Standards and a comment to this effect should be made in Paragraph 12. This is mentioned in Paragraph 13, but it may have more impact if mentioned in paragraph 12.

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Paragraph 13 mentions the use of “like transactions and events” and “unlike transactions and events”. The use of the term “unlike transactions” is confusing and should be further expanded upon or not used in this context.

If you would like to discuss any aspect of the contents of this letter, please do not hesitate to contact us.



CA HOUSE  
21 HAYMARKET YARDS  
EDINBURGH EH12 5BH  
PHONE 0131 347 0235  
FAX 0131 347 0105  
E-MAIL [hanley@icac.org.uk](mailto:hanley@icac.org.uk)  
WEB <http://www.icas.org.uk>

The Secretary  
Accounting Standards Board  
Holborn Hall  
100 Gray's Inn Road  
LONDON WC1X 8AL

e-mail: [iasbpreface@asb.org.uk](mailto:iasbpreface@asb.org.uk)

15 January 2002

Dear Sir

## **DRAFT PREFACE TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Institute's Accounting Standards Committee has considered the draft preface to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and its comments are set out below.

The Committee welcomes the proposal to update the preface to IFRSs. However, it does have some specific concerns about the draft preface, such as whether the future standards will have different sections for principles and guidance and on the quality assurance test that translations of IFRSs will be expected to meet. These are discussed further below.

## **SPECIFIC QUESTIONS**

### **1. The proposed scope of IFRSs**

The Committee agrees that the scope of IFRSs is appropriate and clearly defined.

### **2. The proposal to discontinue the use of 'black letter' style standards**

The Committee agrees with the proposal to discontinue the use of bold type in IFRSs, on the proviso that the IASB does not revert to having a "standard section" and an "explanation section" in each standard. In this respect, the Committee would welcome further information on the proposed format of IFRSs.



The first 4 lines of paragraph 14 explain how the previous distinction between information in bold type and the rest of a standard was achieved. Line 5 of the paragraph then simply states that the IASB will not make this distinction, but does not state specifically what the IASB will do instead. Will the format be the same as in the immediate past, but with all the text being in the same font and style, or does the IASB also propose further changes, such as including guidance separately from the principles of a standard?

It would also be helpful to include another sentence which confirms that all parts of IASB standards will continue to carry equal authority.

The Committee also wonders why the last sentence of paragraph 14 is considered necessary? It appears to be a statement of the obvious but could also be seen as giving more authority to the Objective of a standard.

3. Whether the due process described in the preface is appropriate

The Committee agrees that the due process described in the draft preface is appropriate. However, in relation to the timescale for considering comments received following a consultation, the Committee notes that paragraphs 19 (g) and 20 (d) are inconsistent. Comments received on draft interpretations are to be considered “within a reasonable period of time”, but this is not the case for comments received on a draft standard. The draft preface does not make it clear why this is the case.

The Committee also considers that it would be helpful if the initiation of a discussion was accompanied by an indicative timetable to provide a focus for completing research and receiving comments.

4. Whether any matters not addressed in the draft should be

- (a) The preface is currently silent regarding the inter-relationship of IFRSs with national legislation. While IFRS must clearly be prepared without reference to any particular legislation, it would be helpful to confirm that this is the case and to clarify that legal matters, such as the definition of distributable reserves, are outside the scope of IFRS. It would also be helpful to comment on situations where IFRSs conflict with local legislation, particularly where national adoption of standards is only partial
- (b) It is also very useful to have comment letters made available via the IASB website after the comment period has expired. .
- (c) It would also be useful to publish the names of the advisory group appointed at paragraph 19
- (d). The Committee is unsure whether this information is presently made available.

## OTHER POINTS

5. Objective of financial statements

The Committee considers that the final sentence of paragraph 10 and the whole of paragraph 11 would be more appropriately included in a conceptual framework rather than a preface.

6. Use of the word “performance”

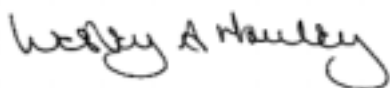
Paragraph 10 states that “The objective ... financial position, performance and cash flows of an entity . . .”. While the use of the term “performance” is not new, it continues to cause problems in the context of current standards. Meaningful performance reporting might, for example, include information on shareholder value added, taking into account risk-adjusted cost of capital allocations. It would perhaps be more appropriate to use the term “results” rather than performance.

7. Levels of translation quality

The Committee does not agree with the idea of having two levels of translation quality. It appears from paragraph 24 of the draft preface that the “approved” translation must pass a quality test while a “licensed” translation will not. All translations should meet the “approved” test of quality assurance.

We hope that our comments are of assistance to you in compiling a UK response to the draft preface for IFRSs for submission to the IASB. If you wish to discuss any of these further, please do not hesitate to contact me.

Yours faithfully



LESLEY A HANLEY  
Assistant Director, Accounting & Auditing  
Secretary to the Accounting Standards Committee

17 January 2002

The Secretary  
Accounting Standards Board  
Holborn Hall  
100 Gray's Inn Road  
London  
WC1X 8AL

Dear Sir,

**LSCA TECHNICAL COMMITTEE RESPONSE ON TILE EXPOSURE DRAFT OF THE PROPOSED "PREFACE TO INTERNATIONAL FINANCIAL REPORTING STANDARDS"**

With a membership of over 30,000, the London Society of Chartered Accountants is the largest of the regional bodies which form the Institute of Chartered Accountants in England & Wales. London members, like those of the Institute as a whole, work in practice or in business. The London Society operates a wide range of specialist committees including Technical (accounting and auditing), Tax, Regulation and Ethics Review and Financial Services and Insolvency, which scrutinise and make representations to issuing bodies such as yourselves. The Technical Committee has recently considered the Exposure Draft of the proposed "Preface to International Financial Reporting Standards" and wishes to make the following comments and observations, which include responses to the specific questions asked in the Exposure Draft.

**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 the 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 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 Committee considers that IFRSs should apply to general purpose financial statements for profit oriented entities. Specific issues that relate to public or not-for-profit sectors that are not covered in an IFRS should be addressed through other forms of guidance. e.g. standards issued by IFAC's Public Sector Committee or local guidance (e.g., in the UK, Statements of Recommended Practice). Other types of financial statements produced by profit-oriented entities that are not general purpose may choose to adopt IFRSs but the acknowledged scope for the IASB should be limited in this way.

However, the Committee believes that the proposed scope should be made clearer in a number of instances. It appears to the Committee that at present paragraph 6, stating the objectives of the IASB, is contradicted by paragraph 9, as paragraph 6 refers to “public interest”—which could be read to include not-for-profit entities—whilst paragraph 9 refers only to all profit-oriented entities. Also, the Committee notes that at present the scope of paragraph 9 is not limited to companies but includes all entities, presumably including unincorporated bodies such as partnerships and sole traders. In the UK at least, such profit-oriented bodies are under no obligation to produce general purpose financial statements of the rigour required by IFRSs. So there must be some overall quality marque that financial statements are purporting to meet in order to define the scope of IFRSs. In our view, it would be preferential to refer to “the general purpose financial statements of all profit-oriented entities that are intended to give a true and fair view”.

In addition, since some IFRSs may not be appropriate for smaller entities, the Committee believes that an IFRS for smaller entities, such as the UK’s Financial Reporting Standard for Smaller Entities (FRSSE) warrants serious consideration now, while the Preface is being formulated. The IASB seems likely, not unreasonably, to focus on “Big GAAP” —paragraph 6 refers to the “various capital markets of the world” —but the Committee’s view is that failure to address the application of IFRSs to unlisted and smaller entities will create difficulties and tensions in the development of new IFRSs which could be avoided by dealing with the issue clearly in the Preface.

## 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 basis principles in each Standard, including a detailed Basis for Conclusion.**

### Do you agree with these proposals? Why or why not?

The Committee believes that in order to meet the Board’s objective in the Preface “to require like transactions and events to be accounted for in a like way and unlike transactions to be accounted for and reported differently”, IFRSs should be developed based on principles rather than detailed rules. To this end the Committee believes that the current IAS style of using bold italic type to indicate the main principles and plain type for explaining the principles should be retained. It offers a rigorous basis on which standards should be developed, preventing them drifting off into unstructured lists of rules.

Additionally, the Committee believes that the IASB should ensure that the non-bold paragraphs interpret the bold paragraphs and do not revise them nor stand in isolation. Accordingly, the Committee would support the IASB adding an introductory paragraph stating “The explanatory paragraphs contained in the IFRS shall be regarded as part of the standard insofar as they assist in its interpretation”.

The failure of users of IFRSs to read or accept such a statement is a matter for any enforcement mechanism; it is not a reason to abandon the practice of black/grey letter if that leads to better standards. Moreover, if the IASB accepts that standards should be principles-based, then this approach would seem natural to follow.

## **Due Process**

### **Question 3.**

**In paragraph 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?**

The Committee regards the due process as set out in the proposed Preface to be appropriate.

## **General**

### **Question 4.**

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

Whilst the Committee has no other matters that it believes should be included in the Preface, it wishes to raise the following additional comments on the draft: -

- ❑ The Committee considers that the IASB needs to define clearly its remit regarding financial statements in Paragraph 11 of the Preface. In particular the Committee believes that the Management Discussion and Analysis (in the UK the Operating and Financial Review ("OFR")) should be outside the remit of the IASB. If this exclusion is the aim of the paragraph, it should be so stated.
- ❑ Paragraphs 5 and 11 of the Preface cross refer to existing IASs. The Committee believes it is inappropriate for the Preface, which is meant to stand in front of all the existing standards, to cross refer to standards in this fashion, and that the Preface should simply state what is meant, even if repeating the content of a standard.
- ❑ Paragraph 24 refers to both approved and licenced translations. The Committee considers that the IASB should only adopt one level of approval for translations of IASB documents in other languages. Otherwise there will be confusion over which is the 'true' standard and quality control of translated material will suffer, i.e. a translation should be either "IASB - approved" (whether or not it is carried out by the IASB) or not.

If there are any matters arising from this letter that you would like to discuss, please do not hesitate to contact Steven Brice on 0207 220 3231 or me on 020 7731 6163.

Yours faithfully,  
  
 Danielle Stewart  
 Chairman, LSCA Technical Committee

15 January, 2002

Andrew Lennard  
Director of Operations  
Accounting Standards Board  
Holborn Hall  
100 Grays Inn Road  
London  
WC1X 8 AL



National  
Housing  
Federation

175 Grays Inn Road  
London WC1X 8UP

Tel: 020 7278 6571  
Fax: 020 7833 8323

email: [info@housing.org.uk](mailto:info@housing.org.uk)

website: [www.housing.org.uk](http://www.housing.org.uk)

Dear Andrew

### **Preface to International Financial Reporting Standards**

The Federation is pleased to have the opportunity to comment on the Draft Preface to International Financial Reporting Standards (IFRS). We are broadly happy with the main proposals, but would like to express our concern regarding the defined scope of the Preface.

Paragraph 9 of the Draft excludes the application of IFRSs to not-for-profit entities. It is also noted that the Public Sector Committee is preparing accounting standards for governments and other public sector entities based on IFRS. However, social housing organisations are **not** public sector bodies, but are independent organisations, constituted under Industrial and Provident, Charities or Companies Act legislation. While it is true that they operate not-for-profit activities, profit (or surplus) generation is nonetheless a motivating driver for many as they strive to reinvest funds into their organisations for growth and development. For this reason, the Federation requests clarification on where such not-for-profit/non-profit distributing entities fit into the scope of IFRSs.

The National Housing Federation would welcome the opportunity to explain more about the social housing sector in further detail to IASB if this would be helpful.

Yours sincerely

Janine Relph  
Policy Officer

Direct Tel: 020 7843 2244  
Email: [janiner@housing.org.uk](mailto:janiner@housing.org.uk)  
Fax: 020 7833 1823

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DUKE OF EDINBURGH

Independent, not-for-profit social landlords provide more than 1.5 million homes in England. The Federation is their voice and an advocate of decent housing for all.

Patron:  
H.R.H. The Duke of Edinburgh, KG, KT  
Registered Office:  
175 Gray's Inn Road, London WC1X 8UP  
A company with limited liability  
Registered in England No. 302132



Holborn Hall  
100 Gray's Inn Road  
London WC1X 8AL

<http://www.asb.org.uk>

Telephone +44 (0) 20 7611 9700  
Direct line +44 (0) 20 7611 9705  
Fax +44 (0) 20 7404 4497  
e-mail [ac.lennard@asb.org.uk](mailto:ac.lennard@asb.org.uk)

International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

12 February 2002

Dear Sirs

**Exposure Draft of a Proposed  
Preface to International Financial Reporting Standards**

I enclose a further response to the ASB's request for comments on the Preface from the British Property Federation. This was received after I sent my letter of 6 February.

Yours sincerely



Andrew C Lennard  
Director of Operations

8 February 2002

Mr Andrew Lennard  
Director of Operations  
Accounting Standards Board  
Holborn Hall  
100 Grays Inn Road  
London WC1X 8AL

By e-mail: [a.lennard@asb.org.uk](mailto:a.lennard@asb.org.uk)

Dear Andrew

**IASB EXPOSURE DRAFT ON PREFACE TO INTERNATIONAL  
FINANCIAL REPORTING STANDARDS**

Thank you for the opportunity to comment on the Preface to the International Financial Reporting Standards. We have two comments we would like to make:

**1. Black letter style of Standards**

We believe that black letter style of standards enables the principles of a standard to be clearly set out. It also permits the guidance and explanation to be given at the most appropriate place. We think that if the guidance and explanation is given elsewhere in the document, it may be over looked. We do not accept the IASB view that the bold italic paragraphs have more authority than those in plain type, and are not aware that this has been a concern in the UK.

Registration

Registration Number:  
778293 England.  
  
Registered Office:  
1 Warwick Row, 7th Floor,  
London SW1E 5ER

The following members are represented on the General Council of the BPF:

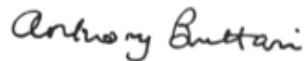
Aberdeen Property Asset Managers	Derwent Valley Holdings PLC	Grosvenor	Minerva plc	Scottish Widows Investment
The British Land Company PLC	Dorington Holdings PLC	Hammerson plc	Morley Fund Management	Management Ltd
Brixton plc	Drivers Jonas	Haslemere Estates plc	Property Managers Association	Slough Estates plc
Burford Holdings Ltd	DTZ Debenham Tie Leung	Jones Lang LaSalle	Scotland Ltd	St Martins Property
Cadogan Estates Ltd	Freshfields Bruckhaus Deringer	Land Securities PLC	Prudential Property Investment	Corporation Ltd
Canary Wharf Group plc	Frogmore Estates plc	Lattice Property Holdings Ltd	Managers Ltd	Taylor Woodrow Property Co Ltd
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CMS Cameron McKenna	Green Property PLC	Liberty International PLC	Residential Landlords Association	Investments Ltd
The Crown Estate	Greycoat Estates Ltd	MEPC Ltd	Saville Gordon Estates plc	S G Whitaker Ltd

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**CL 25i****2. True and Fair View**

We are very concerned that the Preface does not contain any reference to “true and fair” or any equivalent phrase. This could create the impression that it is merely to comply with the accounting standards. We believe that this would be unfortunate. The “true and fair” view has been enshrined in UK company law for over 50 years and has been found to be very helpful in ensuring a balanced view of the state of the company’s affairs.

Yours sincerely,



**A W BRITTAIN**  
**DIRECTOR (TAX & ACCOUNTING) AND COMPANY SECRETARY**

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