Preface to International Financial Reporting Standards[1]

This *Preface* is issued to set out the objectives and due process of the International Accounting Standards Board and to explain the scope, authority and timing of application of International Financial Reporting Standards. The *Preface* was approved by the IASB in April 2002 and superseded the *Preface* published in January 1975 (amended November 1982). In 2007 the *Preface* was amended in January and October to reflect changes in the IASC Foundation's[2] Constitution and in September as a consequence of the changes made by IAS 1 *Presentation of Financial Statements* (as revised in 2007). In January 2008 paragraph 9 was amended to update the reference to the body now known as the IPSASB. In 2010 the *Preface* was amended to reflect the Constitution as revised in January 2009 and January 2010 and the publication of the *Conceptual Framework* in September 2010.

1 The International Accounting Standards Board (IASB) was established in 2001 as part of the International Accounting Standards Committee (IASC) Foundation. In 2010 the IASC Foundation was renamed the IFRS Foundation. The governance of the IFRS Foundation rests with twenty-two Trustees. The Trustees' responsibilities include appointing the members of the IASB and associated councils and committees, as well as securing financing for the organisation. The IASB comprises fifteen full-time members (the IFRS Foundation's Constitution provides for membership to rise to sixteen by 1 July 2012). Approval of International Financial Reporting Standards (IFRSs) and related documents, such as the *Conceptual Framework for Financial Reporting*, exposure drafts, and other discussion documents, is the responsibility of the IASB.

2 The IFRS Interpretations Committee[3] comprises fourteen voting members and a non-voting Chairman, all appointed by the Trustees. The role of the Committee is to prepare interpretations of IFRSs for approval by the IASB and, in the context of the *Conceptual Framework*, to provide timely guidance on financial reporting issues. The Committee (then called the International Financial Reporting Interpretations Committee) replaced the former Standing Interpretations Committee (SIC) in 2002.

3 The IFRS Advisory Council[4] is appointed by the Trustees. It provides a formal vehicle for participation by organisations and individuals with an interest in international financial reporting. The participants have diverse geographical and functional backgrounds. The Council's objective is to give advice to the IASB on priorities, agenda decisions and on major standard-setting projects.

4 The IASB was preceded by the Board of IASC, which came into existence on 29 June 1973 as a result of an agreement by professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States of America. A revised Agreement and Constitution were signed in November 1982. The Constitution was further

1 including IFRIC and SIC Interpretations

2 In July 2010 the IASC Foundation was renamed the IFRS Foundation.

3 Before March 2010 the Interpretations Committee was called the International Financial Reporting Interpretations Committee (IFRIC).

4 Before March 2010 the IFRS Advisory Council was called the Standards Advisory Council (SAC).

revised in October 1992 and May 2000 by the IASC Board. Under the May 2000 Constitution, the professional accountancy bodies adopted a mechanism enabling the appointed Trustees to put the May 2000 Constitution into force. The Trustees activated the new Constitution in January 2001, and revised it in March 2002.[5]

5 At its meeting on 20 April 2001 the IASB passed the following resolution:

> All Standards and Interpretations issued under previous Constitutions continue to be applicable unless and until they are amended or withdrawn. The International Accounting Standards Board may amend or withdraw International Accounting Standards and SIC Interpretations issued under previous Constitutions of IASC as well as issue new Standards and Interpretations.

When the term IFRSs is used in this *Preface*, it includes standards and Interpretations approved by the IASB, and International Accounting Standards (IASs) and SIC Interpretations issued under previous Constitutions.

Objectives of the IASB

6 The objectives of the IASB are:

(a) to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the various capital markets of the world and other users of financial information make economic decisions;

(b) to promote the use and rigorous application of those standards;

(c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings;

(d) to promote and facilitate the adoption of IFRSs, being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRSs.

Scope and authority of International Financial Reporting Standards

7 The IASB achieves its objectives primarily by developing and publishing IFRSs and promoting the use of those standards in general purpose financial statements and other financial reporting. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions. In developing IFRSs, the IASB works with national standard-setters to promote and facilitate adoption of IFRSs through convergence of national accounting standards and IFRSs.

5 The Constitution was further revised in July 2002, June 2005, October 2007, January 2009 and January 2010.

8 IFRSs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They may also set out such requirements for transactions and events that arise mainly in specific industries. IFRSs are based on the *Conceptual Framework*, which addresses the concepts underlying the information presented in general purpose financial statements. Although the *Conceptual Framework* was not issued until September 2010, it was developed from the previous *Framework for the Preparation and Presentation of Financial Statements*, which the IASB adopted in 2001. The objective of the *Conceptual Framework* is to facilitate the consistent and logical formulation of IFRSs. The *Conceptual Framework* also provides a basis for the use of judgement in resolving accounting issues.

9 IFRSs are designed to apply to the general purpose financial statements and other financial reporting of profit-oriented entities. Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities, whether organised in corporate or in other forms. They include organisations such as mutual insurance companies and other mutual co-operative entities that provide dividends or other economic benefits directly and proportionately to their owners, members or participants. Although IFRSs 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. The International Public Sector Accounting Standards Board (IPSASB) prepares accounting standards for governments and other public sector entities, other than government business entities, based on IFRSs.

10 IFRSs apply to all general purpose financial statements. Such financial statements are directed towards the common information needs of a wide range of users, for example, shareholders, creditors, employees and the public at large. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions.

11 A complete set of financial statements includes a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, and accounting policies and explanatory notes. When a separate income statement is presented in accordance with IAS 1 *Presentation of Financial Statements* (as revised in 2007), it is part of that complete set. In the interest of timeliness and cost considerations and to avoid repeating information previously reported, an entity may provide less information in its interim financial statements than in its annual financial statements. IAS 34 *Interim Financial Reporting* prescribes the minimum content of complete or condensed financial statements for an interim period. The term 'financial statements' includes a complete set of financial statements prepared for an interim or annual period, and condensed financial statements for an interim period.

12 Some IFRSs permit different treatments for given transactions and events. 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.

Consequently, the IASB intends not to permit choices in accounting treatment. Also, the IASB has reconsidered, and will continue to reconsider, those transactions and events for which IFRSs permit a choice of accounting treatment, with the objective of reducing the number of those choices.

13 Standards approved by the IASB include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this *Preface*.

14 Interpretations of IFRSs are prepared by the Interpretations Committee to give authoritative guidance on issues that are likely to receive divergent or unacceptable treatment, in the absence of such guidance.

15 IAS 1 (as revised in 2007) includes the following requirement:

> An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.

16 Any limitation of the scope of an IFRS is made clear in the standard.

Due process

17 IFRSs are developed through an international due process that involves accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organisations from around the world. The IASB consults, in public meetings, the Advisory Council on major projects, agenda decisions and work priorities, and discusses technical matters in meetings that are open to public observation. Due process for projects normally, but not necessarily, involves the following steps (the steps that are required under the terms of the IFRS Foundation's Constitution are indicated by an asterisk*):

(a) the staff are asked to identify and review all the issues associated with the topic and to consider the application of the *Conceptual Framework* to the issues;

(b) study of national accounting requirements and practice and an exchange of views about the issues with national standard-setters;

(c) consulting the Trustees and the Advisory Council about the advisability of adding the topic to the IASB's agenda;*[6]

(d) formation of an advisory group to give advice to the IASB on the project;

(e) publishing for public comment a discussion document;

(f) publishing for public comment an exposure draft (including any dissenting opinions held by IASB members) approved by at least nine votes of the IASB if there are fewer than sixteen members, or by ten of its members if there are sixteen members;*

6 Beginning no later than 30 June 2011 the IASB is required to carry out a public consultation on its agenda every three years.

(g) normally publishing with an exposure draft a basis for conclusions and the alternative views of any IASB member who opposes publication;*

(h) consideration of all comments received within the comment period on discussion documents and exposure drafts;*

(i) consideration of the desirability of holding a public hearing and of the desirability of conducting field tests and, if considered desirable, holding such hearings and conducting such tests;

(j) approval of a standard by at least nine votes of the IASB if there are fewer than sixteen members, or by ten of its members if there are sixteen members;* and

(k) publishing with a standard (i) a basis for conclusions, explaining, among other things, the steps in the IASB's due process and how the IASB dealt with public comments on the exposure draft, and (ii) the dissenting opinion of any IASB member.*

18 Interpretations of IFRSs are developed through an international due process that involves accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals and organisations from around the world. The Interpretations Committee discusses technical matters in meetings that are open to public observation. The due process for each project normally, but not necessarily, involves the following steps (the steps that are required under the terms of the IFRS Foundation's Constitution are indicated by an asterisk*):

(a) the staff are asked to identify and review all the issues associated with the topic and to consider the application of the *Conceptual Framework* to the issues;

(b) consideration of the implications for the issues of the hierarchy of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;

(c) publication of a draft Interpretation for public comment if no more than four Committee members have voted against the proposal;*

(d) consideration of all comments received within the comment period on a draft Interpretation;*

(e) approval by the Interpretations Committee of an Interpretation if no more than four Committee members have voted against the Interpretation after considering public comments on the draft Interpretation;* and

(f) approval of the Interpretation by at least nine votes of the IASB if there are fewer than sixteen members, or by ten of its members if there are sixteen members.*

Timing of application of International Financial Reporting Standards

19 IFRSs apply from a date specified in the document. New or revised IFRSs set out transitional provisions to be applied on their initial application.

20 The IASB has no general policy of exempting transactions occurring before a specific date from the requirements of new IFRSs. When financial statements are used to monitor compliance with contracts and agreements, a new IFRS may have consequences that were not foreseen when the contract or agreement was finalised. For example, covenants contained in banking and loan agreements may impose limits on measures shown in a borrower's financial statements. The IASB believes the fact that financial reporting requirements evolve and change over time is well understood and would be known to the parties when they entered into the agreement. It is up to the parties to determine whether the agreement should be insulated from the effects of a future IFRS, or, if not, the manner in which it might be renegotiated to reflect changes in reporting rather than changes in the underlying financial condition.

21 Exposure drafts are issued for comment and their proposals are subject to revision. Until the effective date of an IFRS, the requirements of any IFRS that would be affected by proposals in an exposure draft remain in force.

Language

22 The approved text of any discussion document, exposure draft or IFRS is that approved by the IASB in the English language. The IASB may approve translations in other languages, provided that the translation is prepared in accordance with a process that provides assurance of the quality of the translation, and the IASB may license other translations.