

2 August 2005

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Dear Warren

IASB draft 'Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB'

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the IASB draft *Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB*. Our comments on the draft are as follows:

- 1 In recent years, significant changes have been made to the relationships between accounting standard-setters and, after a period of such change, it can be helpful to set out in writing one's understanding of the new relationships. We therefore believe that preparing the draft Memorandum of Understanding (MoU) has been a useful exercise. We are not sure though that there are any significant benefits to be gained by developing the draft into a final document that is then signed by all the parties.
- 2 The draft refers to standard-setters. EFRAG is not a standard-setter so, strictly speaking, the draft does not describe our relationship with the IASB or with the national standard-setters (NSS). We understand why that is so, but nevertheless think it would be a more comprehensive document were it to set the relationship between IASB and the NSS in the context of the critical and pre-eminent role that EFRAG has in representing the European view with the IASB.
- 3 We note that the draft MoU does not address the position of the Japanese and US NSS; in other words, the NSS that are converging towards IFRS but have neither converged (or adopted) IFRS nor agreed to converge (or adopt) IFRS. Some might argue that the MoU should describe all the relationships that the IASB has so that there is no room for misunderstandings later. However, the relationship the IASB has with FASB is different from the one it has with the ASBJ, and both those relationships are different from the relationships the IASB has with the other NSS. We accept that it is probably not realistic for the MoU to describe all these different relationships. However, bearing in mind that there are different relationships, it would be helpful if the MoU confirmed what we believe should be the case: that, despite the US and Japanese convergence projects,

the IASB is committed to ensuring that no NSS has more influence over it than any other.

- 4 We note that, although the draft MoU contains plenty of detail about the relationship between the IASB and the other standard-setters, it does not really explain why that relationship is so important. We think it should, and suggest adding words along the following lines immediately after paragraph 1.3(c):

"The Memorandum of Understanding is based on the premise that, in order to meet the above aims effectively, it is important that standard-setting is seen as a team effort in which the IASB and the other accounting standard-setters work together in a spirit of openness, close co-operation and proper co-ordination."

- 5 Paragraphs 1.3(a), (b) and (c) of the draft MoU were taken from paragraph 2 of the IASB's constitution. That paragraph has been amended, by the inclusion of a subparagraph about SMEs, and we suggest that paragraph 1.3 is updated to reflect that change.
- 6 Paragraph 3.7 suggests that a database should be maintained of issues reported to the IASB by standard-setters and others. We think that this database could be very useful. However, as much could depend on the detail we suggest that, if the IASB decides to proceed with this proposal, it should consult specifically on a more fully developed, detailed proposal.
- 7 Paragraph 3.20 states that "accounting standard-setters should be a key channel for information flowing to the IASB from government agencies, politicians and others who are engaged in non-technical debate." However, it is not within the power of the NSS or the IASB to determine how and to who government agencies, politicians and others communicate. Furthermore, paragraphs 3.19 and 3.20 together seem to imply that, whilst the IASB should be directly involved in the technical debate, it should be 'protected' somewhat from the non-technical debate. We do not think it is appropriate to distinguish between the technical and non-technical debate in this way; they are both debates that affect global standards, so the IASB should be involved in both.
- 8 In places the draft MoU seems a bit one-sided in 'favour' of the IASB. Section 3, for example, explains at some length the communication 'obligations' of the NSS, but says very little about the IASB's communications obligations. Similarly, the first sentence of paragraph 4.1 makes it clear that, in a joint project, it is important that the IASB does not lose its independence, but omits to mention that it is just as important in such circumstances that the NSS also does not lose its independence. The paragraphs on the work that the NSS might carry out on technical issues seem almost to suggest that the NSS cannot—and would not want to—carry out work on technical issues unless asked by the IASB to do so.
- 9 Although the draft MoU has a lot on the relationships between the staff of the IASB and of the NSS (for example, paragraph 4.7), it says nothing about Board-to-Board relationships. Board-to-Board discussions can be very useful—for both sides—and we think the IASB should be looking for more opportunities to hold such discussions. We think this should be reflected in the MoU. In a similar vein, we note that the draft MoU has nothing significant to say about the world standard setters meetings and the liaison standard-setters meetings. We think the MoU would be a better document if these omissions were to be addressed.

- 10 According to section 4, if an NSS is involved in a research project, it would not necessarily be involved when the issue moves onto the IASB's active agenda; and if NSS staff is involved in an active agenda item's project team, they are treated as if seconded to the IASB and FASB. We think this discussion would be improved by a clearer explanation of the incentives for an NSS to provide resource to the IASB.
- 11 Section 7 discusses the role of the NSS in the interpretations process. In particular, it suggests that individual NSS or groupings of NSS could develop interpretations of IFRS. EFRAG can see that there is merit in allowing NSS (or the relevant national interpretations body) to publish interpretations on issues that arise only in their jurisdiction. However, in its view if the issue arises in more than one jurisdiction, the only body that should publish an interpretation on the issue is IFRIC—otherwise there is a risk that there will be many sources of interpretations, with all the complexities and problems that creates.
- 12 Section 8 of the draft MoU discusses the educational activities of the IASCF. In our view, neither the IASB nor the IASCF should carry out any educational activities. Such activities are bound to give rise to material that will be viewed by some as informal guidance, thus resulting in a further layer of GAAP. EFRAG believes it is essential that the sources of European GAAP are kept to a minimum.

We hope that you find the above comments helpful. If you wish to discuss them further, please do not hesitate to contact Paul Ebling or myself.

Yours sincerely

Stig Enevoldsen
EFRAG, Chairman