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Committee Foundation
30 Cannon Street
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Our ref **MT/288**
Contact **Mary Tokar**

31 March 2009

Dear Ms Oyre

International Accounting Standards Committee Foundation Discussion Document
Review of the Constitution: Identifying Issues for Part 2 of the Review

We appreciate the opportunity to comment on the International Accounting Standards Committee (IASC) Foundation's Discussion Document *Review of the Constitution: Identifying Issues for Part 2 of the Review*. This letter expresses the views of the international network of KPMG member firms.

In our comments, we have sought to respond to the questions posed in the IASC invitation to comment. However, we also have sought to consider more broadly what challenges the IASC and the International Accounting Standards Board (IASB or Board) have faced, and are likely to face, in order to identify the issues that should be addressed in this Constitution Review. We believe that this kind of analysis would be useful in informing the specific feedback to be sought from constituents in the next phase of the Trustees' consultation. We therefore encourage the Trustees to offer their assessment of successes in meeting past challenges and needs for meeting expected future challenges in order to provide context for the specific proposals they make.

In our consideration of the Trustees' invitation to comment on Part 2 of the Constitution Review, we considered where the IASC Foundation is now and attempted to look ahead to the next five years. We then considered what we believe are the key improvements and structural changes that should be addressed in this Constitution Review. Many of the improvements that we believe desirable relate to resources and execution and do not necessarily require structural (constitutional) changes to be made.

Our comments regarding improvements and enhancements should be taken in the context of the success of the IASC Foundation and the IASB with International Financial Reporting Standards (IFRSs) being adopted in the last five years for use in many countries throughout the world and a number of other countries committing to adopt IFRSs in the coming years. However, our review did identify a number of significant areas in which we believe improvements, including some structural changes, are desirable. These include:

- focusing on building more effective relationships with stakeholder groups through improved liaison;

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- increasing resources at the IASB and shifting to a broad-based, stable funding mechanism;
- enhancing the focus on information needs of capital market participants; and
- enhancing the effectiveness of standard setting.

We consider it important that the Trustees take sufficient time to give due consideration to the responses received on this initial consultation on Part 2 of the Constitution Review even if this means modifying their published timetable.

Appendix 1 to this letter provides our comments and suggestions for consideration by the Trustees in Part 2 of their review of the Constitution. Appendix 1 follows the structure of our analysis detailed above. Appendix 2 lists the specific items on which the Trustees requested comments and identifies the sections in Appendix 1 in which our comments on those items are provided.

We look forward to providing comments on the Trustees' specific proposals.

Please contact Mary Tokar at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours Sincerely

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Appendix 1

This appendix provides our comments for consideration by the Trustees in Part 2 of their review of the IASC Foundation Constitution.

Some of the items raised by us are more managerial in nature than items that would be addressed at Constitutional (structural) level. However, we believe that they are important issues and that considering them in conjunction with the Constitution Review would be appropriate. Not all of our comments are ones that we believe should be implemented immediately, as we have included comments that reflect our expectations for continued growth in the use of IFRSs. However, we believe that the Trustees should be evaluating changes that may be necessary in the next five years to support and anticipate expected growth. Otherwise the IASB / IASC Foundation runs the risk of lagging behind demand and losing effectiveness, credibility and support.

Objective 1: Focus on building more effective relationships with stakeholder groups

The Trustees already have identified liaison with stakeholder groups as an area requiring additional attention. We agree that the IASB should strengthen its relationships with its stakeholders in order to build and maintain close and effective relationships and have more effective communication. Now is a good time to consider how the IASC Foundation and IASB deal with liaison and the Board and the Trustees should work together to consider how to handle liaison most effectively.

- We suggest devoting more Board and senior staff time to liaison activities. We recommend not increasing the number of Board members further; a Board of 16 seems to be at the maximum size for the organisation to function effectively as a single group for standard setting. Instead we recommend committing a higher percentage of Board time to liaison activity, even if this requires reducing the number of active projects. We also suggest that the number of senior staff members be increased to allow that group to take on increased liaison responsibilities.
- We encourage the Trustees to consider consulting directly with stakeholder groups as part of this Constitution Review in order to solicit their views and suggestions on enhancing liaison, perhaps through organising roundtables. With regard to specific stakeholder groups, we acknowledge recent initiatives of the IASB, such as the Global Preparers Forum and the Corporate Reporting Users Forum, to strengthen links with functional constituent groups. We believe that as part of this review the IASC Foundation should assess the effectiveness of these initiatives. We recommend that the Board and the Trustees consider organising more regional and / or functional groupings of stakeholders in order to facilitate more effective communication. We suggest that the IASC Foundation explores whether it could support more actively the formation of industry groups.
- The Trustees should consider whether setting up branches (geographical and / or topic-based) would be appropriate to improve liaison with stakeholder groups. We believe that it

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is important to consider now whether a model with some decentralisation would be appropriate for the organisation either currently or in the future. We recognise that this might pose significant managerial challenges, including avoiding compromising consistency. We have not concluded whether we would support such a change but we believe that it merits consideration. If the Trustees do consider that a decentralised model is a desirable outcome, then this would be an important objective to consider when making decisions / resource commitments even in advance of moving to such a model.

The IASC Foundation also may wish to consider formalising liaison and communication channels by identifying a specific senior staff and Board contact at the IASB who would be responsible for the IASB's relationship with a specific geographical region.

- We support the IASB's efforts to develop and support its relationship with global regulatory groups and networks such as the International Organization of Securities Commissions (IOSCO) and the Financial Stability Forum (FSF). In order to secure and maintain its status as the global standard setter we believe that the IASB needs to use both Board and staff time to participate in FSF working groups and support the accounting aspects of ongoing projects. However, ultimately IFRSs are a tool for capital allocation decisions in public markets. If capital market (investor) objectives and prudential regulation objectives are in conflict, then we believe that primacy should be given to investor objectives. We have offered comments in the next section regarding maintaining the primacy of this focus.
- We encourage the IASB to support more actively interaction with valuation professionals. IFRSs increasingly require or permit the use of fair value or fair value-based measurements. We believe that the relevance and reliability of reporting under IFRSs, as well as the operability of the standards, would be enhanced if the IASB and its staff consulted more regularly with valuation professionals when developing standards. Examples of current standards that require substantial valuation knowledge include IFRS 2 *Share-based Payment*, IFRS 3 *Business Combinations*, IAS 16 *Property, Plant and Equipment*, IAS 36 *Impairment of Assets*, IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 40 *Investment Property*. Current market conditions have highlighted the substantial valuation knowledge required to apply IAS 36 and some of the inconsistencies between typical valuation calculations and some aspects of calculations required by IAS 36.
- We believe that the IASB should consult more broadly -- e.g., exposure and comment -- on key agenda decisions in order to improve stakeholder buy in to projects on the agenda and their scope. For example, the Board might establish an expectation of public consultation before any project is added to the agenda that is expected to take over two years / 1,000 hours of Board / staff time. Assuming that every hour of Board discussion involves two hours of preparation per Board member and 15 hours of staff time, this would trigger consultation on projects expected to require over 14 hours of Board meeting time.
- The strength of the IFRS brand is important for the long-term success of IFRSs. We believe that an ongoing challenge for the IASC Foundation will be how to protect this brand. For example, there is a threat to its strength from local variants to IFRSs arising due to changes

being made to IFRSs in national adoption or endorsement and also due to time lags between the effective dates of standards and their endorsement for use. We note that the Board proposed measures to protect the IFRS brand in its exposure draft of *Proposed Improvements to International Financial Reporting Standards* published in October 2007. We support the Board's subsequent decision not to deal with the issue in the manner proposed in that exposure draft, i.e., by mandating disclosures in a low profile standard setting project. We believe that the protection the IFRS brand should be dealt with initially at Trustee level and requires liaison with national standard setters and regulators. We believe that improved liaison in this regard also would reduce political pressure for the IASB to make amendments to IFRSs. This would serve to strengthen IFRSs and improve the actual and perceived independence of the IASB from political influence. We believe that protection of the IFRS brand is a significant issue that merits the investment of resources required to ensure it is addressed appropriately.

Objective 2: Increase resources and stabilise funding

- The current size of the IASB approximates that of a large national standard setter. However, the IASB has a heavier workload and a much larger and more dispersed stakeholder group than national standard setters. In order to meet its objectives, we believe that the IASB needs to increase its staff levels, both in terms of numbers and seniority. The number and the size of the countries that are committed to adopting IFRSs in the coming years, and the possible adoption of IFRSs by other countries not yet committed to doing so, present significant opportunities for the IASB. However, the number of stakeholders is going to increase dramatically and this will place significant additional resource demands on the organisation. For the IASB to maintain its credibility as the global standard setter, it must ensure that it has adequate resources to deal with the increased workload including increased demand for liaison.
- We note that the Trustees currently are undertaking a review of the funding of the organisation. We believe that the current funding structure of voluntary contributions could be seen as undermining the independence of the IASB. We therefore recommend moving to a levy system as soon as possible. A secure funding base is necessary to perform the IASB's functions effectively, especially in light of the additional stakeholders resulting from countries adopting IFRSs in the coming years and the increasing demands on the IASB for input and standard setting activity in the current economic climate.

Objective 3: Enhance the focus on information needs of capital market participants

We believe that the primary objective of the IASB should continue to be developing and maintaining standards that provide relevant information for capital markets; while engaging with and understanding the needs and interests of prudential regulators is very important, there are times when there may be tension between the two. In these cases we believe that the needs of investors operating in public markets should take precedence. Similarly, while expanding use of IFRSs to not-for-profit entities and the public sector is desirable, we believe that the

objectives and needs of capital markets may need to be given priority from a resource perspective as well as objectives' perspective.

- The same logic that supports the use of a global set of accounting standards for capital markets also supports the use of a global set of standards for not-for-profit entities and the public sector; a set of standards based on IFRSs would be the logical choice. We believe that this should be a long-term objective of the IASB. However, considering resource constraints, we believe that in the next five years the focus of the IASB should not be extended to include standard setting specifically for not-for-profit and / or public sector organisations as this would involve significant investment of IASB resources. An option to be considered would be for the IASB to encourage other suitable organisations to meet the financial reporting needs of not-for-profit entities and the public sector by developing standards that are based on IFRSs; the IASB would provide assistance and support to those organisations.

We also note that a preliminary step in this regard is determining what the information needs of not-for-profit entities and the public sector are and whether they are similar to the information needs of the users of financial statements of for-profit entities; this is an important step before embarking on the major project of standard-setting for not-for-profit entities and the public sector. We encourage the IASB to seek ways, perhaps in partnership with professional organisations such as IFAC and / or national standard setters, to undertake such an assessment.

- Emerging economies are an important stakeholder group of the IASB. We believe that the IASB should consider whether there are specific financial reporting needs of such economies that currently are not being addressed and could be addressed within the constraints of a focus on accounting standards for (global) capital markets. By this we mean considering the likely high priority issues for emerging economies, e.g., privatisations and restructurings prior to accessing capital markets, rather than developing a separate set of accounting standards for emerging economies. In addition, we believe that when setting their agenda and developing and drafting standards the Board should be cognisant of the related resource demands for preparers and users; this consideration is especially relevant for emerging economies.

Objective 4: Enhance effectiveness of standard setting

- We believe that the IASB should have fewer projects on its active agenda. There is concern among constituents that the degree of change in IFRSs makes it an unstable and costly platform that can hinder effective communication with shareholders and other stakeholders. In addition, having fewer active projects should allow projects to be completed in a shorter timeframe and also would reduce perceived inefficiencies in operation, e.g., overlapping discussions of related issues in different projects. Please also see our earlier proposal for public consultation on major agenda decisions.

- We agree that the IASB should have a fast-track procedure in place for changes to IFRSs. However, we believe that this always should include a period of exposure. We believe that if such a procedure is put in place, then it should be used only in exceptional circumstances. We recommend that the circumstances in which the fast-track procedure should be used should be articulated along with the procedures to be followed, e.g., who approves the use of the fast-track procedure. We note that in most circumstances the combination of longer-term comprehensive reconsideration of issues (e.g., the Board's recently published discussion paper on financial statement presentation), more focused amendments / enhancements (e.g., its recent exposure draft on consolidation) and the annual improvements project should allow the IASB room to address most of the issues that arise within its normal process.
- We believe that the structure of the IASB should continue to have the Board itself as the decision making body supported by its staff. It is important for the Board's transparency, credibility and accountability that its decision making and substantive discussions take place during public meetings. We recognise that informal working groups that meet outside of public meetings provide valuable input for Board meetings but they should supplement rather than replace robust and substantive discussions at Board meetings.
- We encourage the IASB to strengthen its relationships with national standard setters and use these organisations to perform work that would assist the IASB, e.g., field tests, research projects and post-implementation reviews. Such organisations have substantial experience that the IASB could tap into and, in addition, they usually are largely independent organisations whose objectives and governance often are compatible with the IASB's.
- We believe that the commitment to developing standards that are principles-based should be stated explicitly in the IASC Foundation's Constitution.
- We believe that increased field-testing prior to the publication of standards and interpretations would enhance their effectiveness and the IASB's reputation. Also, while we acknowledge the Board's recent launch of post implementation reviews, we recommend that they are used more frequently and consistently in the future.
- We believe that improved monitoring of translations of IFRSs would be beneficial to ensure that translated versions will result in the same requirements as the English version. We encourage the IASB to co-ordinate and support more timely translation of IFRSs into other languages. Also, when drafting the standards in English, it is important to continue to bear in mind that they will need to be translated into many different languages and also that many readers of the English version will be non-native English speakers.

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In response to other specific questions posed by the Trustees in their invitation to comment:

- We encourage the IASC Foundation to amend the Constitution to reflect the creation of the Monitoring Board; incorporating this into the Constitution as soon as possible would support the IASC Foundation's objective of enhancing the perceived and actual accountability of the Foundation.
- It would be helpful for the IASC Foundation to communicate its assessment of how well the fixed geographical distribution for Trustees has functioned in order for us to comment on it. We acknowledge the importance of geographical balance among Trustees and we understand that for global credibility a global standard setter needs to be seen to be acting in the best interests of stakeholders in all parts of the world. However, in our view, a mechanical application of a regional quota system may hamper rather than help in finding the right candidates.

Appendix 2

This appendix lists the specific items on which the Trustees requested comments and provides the sections in Appendix 1 in which our comments on those items are provided.

Objectives of the organisation

1. Appropriateness of the organisation's objective: Objective 3
2. Specific reference to a principle-based approach in the Constitution: Objective 4
3. Financial reporting for not-for-profit entities and the public sector: Objective 3
4. Relationships with other organisations: Objectives 1, 2 and 4

Governance of the organisation

5. Modifying the language of the Constitution to reflect the creation of the Monitoring Board:
Other

Trustees

6. Appropriateness of the current fixed geographical distribution of Trustees: Other
7. Responsibilities of the Trustees and effectiveness of their oversight activities: Objectives 1, 2, 3 and 4
8. Financing of the IASC Foundation and the IASB: Objective 2

International Accounting Standards Board

9. The IASB's agenda setting process: Objectives 1 and 4
10. Due process procedures of the IASB: Objective 4 (We believe that it is too early to comment on the effectiveness of recent enhancements in due process procedures.)
11. "Fast-track" procedure: Objective 4

Standards Advisory Council

We believe that it would be premature to provide comments on the Standards Advisory Council as the reconstituted Standards Advisory Council only commenced operations in February 2009.

Other issues

Our comments and suggestions on other issues are contained throughout Appendix 1 in Objectives 1, 2, 3 and 4.