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Your ref

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25 June 2004

Dear Ms Pryde

Invitation to comment – Strengthening the IASB’s deliberative processes

We appreciate the opportunity to respond to the invitation to comment – *Strengthening the IASB’s deliberative processes*. This letter expresses the views of KPMG International.

A key issue is to enhance the confidence in the standard setting process, including the consultation phase of that process, in order to not only develop high quality standards but also to promote the acceptance of those standards. Generally, in an international environment consultation and explanation will take more time than in a national context in order to bring constituents along. This should be reflected in the IASB agenda and its due process.

We welcome all the initiatives planned (or implemented) and believe this strengthens the consultative procedures. However, we have identified a few additional areas where we believe the consultative procedures could be further improved. These are described below.

Accessibility and transparency of the IASB’s deliberative process

We appreciate the broadcast of Board meetings and the immediate availability of comment letters.

The expansion of the observer notes has increased the transparency into the discussions and decisions at Board meetings. However, we believe that the transparency could be further improved by granting observers the same material as is available for Board Members. At the same time this would reduce the staff resources spent in making the observer notes available to the public.

The IASB's responsiveness to constituent's comments

We support the suggested publication of the summary of the Board's position on major points raised in comment letters if this does not result in an undue delay to deliver a final standard. Ideally, the summary would be an advance version of certain sections of the basis for conclusions.

We suggest that the processes for analysing and summarising comments from respondents are strengthened so that, for example, a tentative decision made by the Board on one aspect of a project would not prevent comments on other aspects of the project to be brought to the attention of the Board.

We also support the improvements suggested in relation to publications of latest proposals for new standards, especially the fatal flaw review by existing advisory groups assuming that there is confidentiality build around this process. However, we think that the advisory group review should not only focus on the inoperability of the standard but also the practical application of the standard, including the ability for non-native English speakers to read and understand the standards.

The extent of consultation before releasing proposals and standards

We welcome the intention of the IASB to make regular use of advisory groups on key topics and we believe that the use of such groups is essential for the outcome of the more complex projects, as seen with the project on share-based payment and financial instruments. We believe the use of such advisory groups should be much more widespread, if not mandatory to all new projects.

Under the current IASC Foundation Constitution, IASB should consider the use of public hearings and field-testing but is not required actually to perform such hearings or field-tests. Some may have perceived that the round tables in relation to IAS 32 and 39 were only held because the IASB was forced to do so. Similar criticism may be prevented, if it was granted to Standards Advisory Council (SAC) to *require* the IASB to perform public hearings or field-tests for specific projects, in addition to the continuance of the ability for IASB to "voluntarily" do so. Alternatively, a greater openness to the views and requests of SAC could be given without constitutional changes. In our response to *First step papers* we will give more detailed suggestions to changes to SAC and to the manner in which the IASB interacts with the SAC.

Other issues

The IASB agenda up to March 2004 has been ambitious and perhaps too much has been attempted in too short a time frame. An IASB agenda that is too ambitious may still meet the objective of developing high quality standards but may do so in a way where the due process and widespread acceptance is jeopardised. With the stable platform established we look forward to a balance between the two objectives that will help building trust in the standard setting process.

It should be considered to include in the IASB's due process a *post-issuance review* of its standards, e.g. a review after 2-3 years experience.

In addition the IASB should consider establishing a platform to monitor and review its major standards after they have been issued and to identify implementation issues as well as their effectiveness in practice. Such post-issuance monitoring could provide agenda material for the IFRIC and input to the post-issuance review suggested above.

Lately a significant number of so-called *editorial changes* have been made. We believe that these editorial changes cause confusion and nuisance to IFRS-users. Moreover, some of the editorial changes may even – unintentionally – lead to changes in current standards – changes that has not been through the IASB's due process. We strongly recommend, that such editorial changes be made in very limited circumstances and never to introduce changes to current standards outside the due process.

In addition to our comments above we refer to our response to the IASC Foundation Constitution Committee paper *Next steps for the Constitution Review following initial consultation* dated 28 June 2004.

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Please contact Mark Vaessen at 020 7694 8089 if you wish to discuss any of the points raised in this letter.

Yours faithfully

KPMG International