

中 华 人 民 共 和 国 财 政 部
Ministry of Finance, People's Republic of China

July 29, 2005

Mr. McGregor
International Accounting Standards Board
First Floor, 30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. McGregor,

**Comment to Draft Memorandum of Understanding on the Role of
NSSs and Their relationships with IASB**

We are pleased to receive the letter from you.

We have received and carefully reviewed the Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB. We believe that a clear identification of the relative functions of other accounting standard-setters in the process of developing IFRSs, and the relationship between each of these accounting standard-setters and the IASB can enhance the performance of the accounting standard-setters in the process of developing IFRSs. It is crucial for the elimination of differences and harmonization between accounting standards of different countries, enhancement of international communication as well as convergence of international accounting. It can also assist the IASB to develop high quality accounting standards which are globally accepted. Accordingly, China wholeheartedly supports IASB's effort in this respect. We hope this Memorandum of Understanding can be finalized and issued in the near future and serves as a guideline for the communication and harmonization between accounting standard setters and the IASB.

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We have the following comments in relation to the Draft Memorandum of Understanding (the "Draft") for your kind consideration in the process of revising the Draft:

(1) Aim of National Accounting Standard-setters

As indicated in paragraph 1.3 of the Draft, the ultimate aim of the IASB and other accounting standard-setters is to develop a single set of high quality, understandable and enforceable global accounting standards. In our opinion, the IASB is responsible for the development of a set of global accounting standards. The aim of national accounting standard-setters is still to develop accounting standards applicable for their own nations. Even for those countries which have already adopted IFRSs, the national standard-setters aim at implementation of the high quality international accounting standards published by the IASB. The development of global accounting standards is still the responsibility of the IASB.

(2) Relationship between Accounting Standard-setters and Regulators

As mentioned in paragraph 2.3 and 2.4 of the Draft, it is the responsibility of national accounting standard-setters, not the IASB, to identify and deal with domestic regulatory barriers to adopt or converge with IFRSs. It is responsibility of national accounting standard-setters, not the IASB, to encourage all regulators to participate in international accounting convergence projects. In our opinion, all accounting standard-setters, needless to say, should have the prime responsibility to obtain the support and co-operation from the domestic regulators. However, the IASB should also assist in this respect. Because regulators of different countries are usually members of their corresponding international or regional organizations, they are required to comply with the regulations of these international (or regional) regulatory organisations. Thus, the IASB should take up the responsibility to gain support and

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co-operation from those international (or regional) regulatory organisations (e.g. International Organization of Securities Commissions, Basel Committee on Banking Supervision, The European Commission), and encourage the member countries of these organizations to eliminate the regulatory barriers and converge with international accounting. In addition, the IASB should request the regulators of certain countries, for example, the U.S. Securities and Exchange Commission, to relieve the barriers on adopting IFRSs. This is not only the responsibility of the accounting standard-setter of the United States. The IASB also have significant responsibility.

(3) Establishment of Accounting Queries Database

We support the view of IASB to set up a database for the accounting queries submitted by different countries. However, in our point of view, it may not be a complete database if it only includes the accounting queries but not the solutions. We suggest the IASB should include in the database the queries, the discussion process and recommended final solutions. The purpose of submitting queries to the IASB is not only to explain to the IASB the accounting issues faced by different countries but also to obtain a final solution or an answer from the IASB on the subject matter. The proposed database should be able to provide this information.

(4) Communicating Standard Related Information between the IASB and National Accounting Standard-setters

As described in paragraph 3.14 and 3.15 of the Draft, the IASB should ensure that it makes relevant information available on a timely basis so that national standard-setters can be fully informed of the IASB's activities and plans, including current developments, which would facilitate the communication between national accounting standard-setters and the IASB, and facilitate the promotion and adoption

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of IFRSs as well. However, the Draft does not provide guidance or specify the nature and the extent of information, and the method of communication to the national accounting standard-setters. In addition, the Draft has not mentioned whether the national accounting standard-setters can request information from the IASB. Lack of clear guidance could potentially cause practical problems in practice. We consider the provision of detail implementation guidance will facilitate the communication process.

(5) Role of FASB

Paragraph 4.1(b), 4.6 and 4.7(b) have mentioned a few times that some projects would be carried out under the supervision of the IASB and FASB, or led by FASB alone. We understand that for the purpose of achieving convergence of the IFRSs and accounting standards issued by FASB, some projects were led by IASB and FASB together or drafted by the FASB directly. However, although we understand the importance of convergence of IFRSs and SFASs, we consider the independence of IASB should not be impaired. The position of national accounting standard-setters and the FASB are the same in relation to accounting standards development. The FASB should not perform the role as the setter of international standards. We consider the accounting standard-setter of the United States (FASB) should not enjoy any privilege in relation to the development of IFRSs.

(6) Interpretation of IFRSs

Paragraph 7.7 and 7.8 of the Draft mentioned that if an issue in a particular jurisdiction does not have broad relevance, the IASB can decide not to deal with the related issue. In our opinion, that the related issue does not have broad relevance is not an excuse for the IASB not to provide an interpretation or an explanation. No matter whether the issue has broad relevance or not, the IASB has the responsibility to provide appropriate interpretation.

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We hope the IASB would consider the comments mentioned above in the process of revising the Draft. China will always support the IASB to develop high quality internationally accepted accounting standards with continued effort.

Best Regards,

A handwritten signature in black ink, consisting of stylized, fluid strokes. The signature is positioned above a vertical line that extends down to the text below.

Wang Jun

Assistant Minister, Ministry of Finance, P.R.China

Secretary-General, China Accounting Standards Committee