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Professor Sir David Tweedie
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Our ref MT/288

Contact Mary Tokar

11 January 2008

Dear David

Annual improvements to IFRSs: compliance with IFRSs

In addition to responding generally to the IASB's proposed amendments to IFRSs as part of its annual improvements process, we wanted to comment separately on the proposed amendment to IAS 1 *Presentation of Financial Statements* in respect of compliance with IFRSs. This letter expresses the views of the international network of KPMG member firms.

In the past we have been among the commentators who have noted to the trustees of the IASC Foundation that the IFRS brand should be protected. Therefore we are pleased that the Board is seeking to respond to these concerns.

However, we do not agree that the annual improvements project (AIP) is an appropriate forum in which to deal with this issue, and we have concerns about the approach proposed. This letter explains our concerns, including the need for the IASB to work with standard setters (or legislators) and regulators, and to focus on frameworks rather than individual entities, in resolving this issue.

Is the AIP the appropriate forum in which to deal with this issue?

The objective of the AIP is to "provide a streamlined process for dealing efficiently with a collection of miscellaneous, non-urgent but necessary minor amendments to IFRSs." While the IASB's proposals in respect of this matter appear simple, we believe that the issue itself is not a minor amendment.

In our view, this issue goes beyond a simple accounting disclosure to encompass the interaction between the IASB and standard setters and regulators, and between IFRSs and other financial reporting frameworks. A solution in respect of how best to protect the IFRS brand requires a wider debate that cannot be achieved when dealt with as one of a number of miscellaneous proposals. Accordingly we believe that the IASB should deal with this issue as a separate project and, if necessary, publish a dedicated exposure draft (ED) for comment to invite that debate.

Protecting the IFRS brand

Dialogue with standard setters and regulators

Paragraph 16A to IAS 1 proposes that if variants of IFRSs do arise, then financial statements prepared in accordance with that variant should include some disclosure to alert the user to differences from IFRSs. The amendment relies on an assumption that the variant of IFRSs will adopt this proposed paragraph 16 and therefore incorporate that disclosure requirement, which we believe is far from certain. Using "IFRSs as adopted by the EU" as an example, how would this disclosure requirement be transposed when all references in IFRSs are changed to "IFRSs as adopted by the EU"? In this example the proposed disclosure will be nullified unless the EU makes a conscious decision to rewrite the requirement to require disclosure of the differences between IFRSs as adopted by the EU and IFRSs as issued by the IASB. In any event a variant of IFRSs may "carve out" the proposed disclosures, which is a point made in the dissenting views published with the proposal. If some IFRS variants include the disclosure, but others do not, this may cause further confusion amongst users about the nature of IFRS-variant financial statements.

The IASB's proposals refer to the July 2007 ED of the International Auditing and Assurance Standards Board (IAASB), ISA 700 (Redrafted) *The Independent Auditor's Report on General Purpose Financial Statements*. The ISA 700 ED proposes that when a financial reporting framework is described by reference to IFRSs, but the framework does not require the disclosures proposed in paragraph 16A of IAS 1, then "the description is likely to be misleading if the effect on financial statements of the difference between the framework and International Financial Reporting Standards may be significant." We do not agree with the IAASB's proposal because it shifts responsibility for assessing the appropriateness of variants of IFRSs to reporting entities and their respective auditors; in effect this requires reporting entities and auditors to second-guess the judgement of the standard setter or regulator in their jurisdiction.

In a perfect world the IFRS brand would be protected best if its use was not allowed other than in connection with a set of financial statements that complied in all respects with IFRSs as issued by the IASB. We agree that this solution is not practicable, not least because the IASB does not have the authority to impose such a condition; however, we believe that the IASB should make every effort to engage in dialogue with standard setters and regulators to discourage them from allowing references to a variant of IFRSs.

We appreciate the efforts that the IASB has made in liaising with the IAASB on this issue, but the discussions should be widened to include financial reporting standard setters and regulators. These are the organisations with the power to support IFRSs as issued by the IASB and so prevent the development of IFRS-variants. For example, in October 2007 the Australian Accounting Standards Board decided that entities in Australia should no longer be allowed to use the term "AIFRS" (Australian equivalents to IFRSs) in their financial statements on the basis that the term may imply wrongly that Australian accounting standards are not IFRS-compliant. In accordance with AASB 101 *Presentation of Financial Statements*, entities in Australia include in their financial statements a statement of compliance with Australian Accounting Standards, and are encouraged to make a separate statement of compliance with IFRSs when they are able. In turn the auditor is required to report on any such statement of compliance with IFRSs.

At a minimum any discussions should include the International Organization of Securities Commissions because of its wide remit. While we understand that any such dialogue might not result in a speedy outcome, we believe that the quality of the final outcome is paramount to the success of the vision of global accounting standards.

Focus on frameworks

If the Board does not believe that the above approach of working with standard setters and regulators will achieve the desired outcome, then we encourage the Board to focus in its disclosures on differences between IFRSs and appropriate financial reporting frameworks used by entities, rather than the current focus on the entity itself ("when an entity refers to IFRSs…"). We are concerned that the proposals as drafted may encourage individual entities to adopt variants of IFRSs. In this regard we agree with the dissenting views that the proposed approach will undermine the credibility of IFRSs.

We prefer the IASB to focus on financial reporting frameworks that are used by entities to meet reporting requirements in their jurisdictions. This could be achieved, for example, using the language in paragraph A9 of the ISA 700 ED, by referring to the fact that an authorised or recognised standard-setting organisation, or relevant law or regulation, may describe the applicable financial reporting framework by reference to IFRSs, even though the framework is such that management cannot make an explicit and unreserved statement of compliance with IFRSs. In such circumstances one possibility is to require disclosures to identify the differences between that framework and IFRSs, and the entity could be required to highlight which of its specific accounting policies may have been different had IFRSs been applied.

We understand that this approach would not prevent individual entities from adopting a variant of IFRSs outside of a recognised financial reporting framework, but we feel that it would at least discourage such behaviour. It also would avoid giving the impression that the IASB views IFRS-variant reporting as an acceptable approach, or that such variations would not result in a qualified or adverse audit opinion.

Please contact Mary Tokar or Julie Santoro 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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