



**KPMG IFRG Limited**  
8 Salisbury Square  
London EC4Y 8BB  
United Kingdom

Tel +44 (0)20 7694 8589  
Fax +44 (0)20 7694 8429  
mark.vaessen@kpmgifrg.com

Mr Michel Prada  
IFRS Foundation  
30 Cannon Street  
London  
EC4M 6XH

Our ref **MV/288**  
Contact **Mark Vaessen**

20 December 2012

Dear Mr Prada

### **Proposal to Establish an Accounting Standards Advisory Forum**

We appreciate the opportunity to comment on the *Proposal to Establish an Accounting Standards Advisory Forum* ('ASAF'). This letter represents the views of the KPMG network.

We support the IFRS Foundation's initiative to establish a Forum aiming to allow a collective, sustainable and effective communication between the IASB and the National Standard-Setters (NSS), or their regional representative bodies. As the convergence programme with the US Financial Accounting Standards Board is coming to an end, we believe that the IASB needs to continue to work in close cooperation with regional and national accounting standards bodies to deliver high-quality global standards, moving from its existing selected bilateral relationships to a more inclusive multi-lateral approach.

As we have stated in response to previous consultations, in particular the IASB's 2011 Agenda Consultation, we believe that there are a number of areas where the IASB should look at lessons learned from the past and improve in order to ensure the quality of its future standards. These include setting realistic and achievable timetables for projects; performing more thorough initial assessments for new projects upfront in order to articulate more clearly the problems any new projects are seeking to address; and to analyse in-depth the root causes for any issues identified. They also include, in developing standards, becoming more effective in achieving general acceptance of the ultimate solutions and delivering well-drafted standards with clear principles. We would hope and expect that the creation of ASAF contributes to achieving these necessary improvements, in collaboration with the NSS and regional bodies. It will however –as noted by the IASB chairman himself recently– also require changes to past practice in operations within the IASB itself.

We support the proposal to formalise the IASB's relationship with NSS and regional bodies, enhancing their participation in the IASB's activities, by:

- Obtaining support and commitment in the process of developing high quality global accounting standards that can count on a broad acceptance once developed, by obtaining NSS' collective advice on the technical aspects of the IASB's standard setting activities on a regular basis.
- Allowing IASB to get access to the best available global thinking on technical issues, to subject matter expertise, research capacity and resourcing.
- Obtaining views on and potential issues with new proposals from all regions in the world early in the standard setting process.

We believe that the objectives of ASAF should be more clearly articulated than is currently the case in the proposal. In our view ASAF should focus in particular on the research and development phase of the standard setting process, rather than on issues pertaining to consistency of application of existing standards. Furthermore, the objectives of ASAF should be clearly distinguished from those of the IFRS Advisory Council. The latter's focus should remain on advising the IASB and Trustees on strategic matters pertaining to the standard setting process and its governance. The focus of ASAF instead should, in our view, be firmly on the development of new standards and on advising the IASB on the various technical and conceptual issues it needs to resolve in major new projects.

As noted in paragraph 7.2, we agree that the impact of the creation of ASAF on other existing Foundation bodies, such as the Advisory Council, needs further consideration— for example with respect to rationalisation of membership.

The relationship between the IASB and the NSS and regional bodies through ASAF should be conducted in a spirit of cooperation and collaboration. That said, however, the IFRS Foundation will need to ensure that ASAF *de facto* is, and will be perceived as, an advisory body only. Because of its composition and the technical nature of its future debates, there is a risk that ASAF may become to be seen as a 'parallel board' where decisions are being pre-determined. We believe that it is of crucial importance that this is not the case and that this risk – real or perceived – is sufficiently mitigated in its set-up. The fact that ASAF is not part of the institutional structure of the Foundation (paragraph 6.6) but rather an outside advisory body and that there is an explicit members' commitment to independence of the IASB are helpful factors in this respect. Setting clear objectives for ASAF from the outset is, in our view, another key element. The latter also includes clearly articulating expected outputs from ASAF and how the IASB plans to deal with the advice it receives.

With respect to the composition and number of seats, we believe that the principle should be that ASAF is sufficiently inclusive and representative to allow those with a legitimate interest to have a seat at the table. The number of seats available should be a factor of the overall objectives of ASAF. We have no strong view on the precise number of seats. The number of seats should be limited enough to have an effective discussion of issues of a technical nature, but large enough to allow a representative mix of regional and major national accounting standards organisations.

Finally, as the IASB has been formalising its relationships with various stakeholders over the past years, including preparers, investors and now standard setters, we note that at present there is no formal platform through which the IASB liaises with the accounting profession at large. We believe that consideration to such a platform should be given, possibly in a combination with regulators.



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We have set out our detailed responses to questions 1 and 2 included in your invitation to comment in the appendix to this letter.

Please contact Mark Vaessen +44 (0)20 7694 8589 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

*KPMG IFRG Limited*

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## **Appendix**

### ***Question 1***

*Do you agree with the proposed commitments to be made by ASAF members (paragraph 6.4) and that they should be formalised in a Memorandum of Understanding (paragraph 6.5)? Why or why not?*

We support the overall direction of the proposed commitments for the ASAF members and agree that they should be formalised in a Memorandum of Understanding. We believe that a formal agreement to share commitments to quality, independence and transparency will allow ASAF both to provide IASB with high quality advice on potential issues and to contribute to the IASB's technical work.

We strongly agree that ASAF should be an advisory body only and therefore would not have any decision-making authority. We would expect, however, the views presented in ASAF to be carefully considered by the IASB, and for the Board to provide progress reports as to how issues discussed with ASAF have been ultimately decided.

### ***Question 2***

*The Foundation believes that, in order to be effective, the ASAF needs to be compact in size, but large enough to allow for an appropriate global representation. Do you agree with the proposed size and composition as set out in paragraphs 6.7-6.13? Why or why not?*

The number of seats available should be a factor of the overall objectives of ASAF. We agree that ASAF should be sufficiently small to be productive, yet large enough to allow all major geographies to feel included and sufficiently represented and support the development of generally accepted global standards.

In this regard, we support regional bodies to have a seat in ASAF, because of their ability and responsibility to effectively, timely and efficiently reach out to all the NSS in their respective regions, including smaller countries, to obtain views and flag any potential issues. Furthermore, we would expect major NSS, taking into account the factors mentioned in paragraph 6.11, to get appointed a seat in ASAF. We believe that the ultimate number of seats available should accommodate such representation.

It is not clear from the proposal who appoints the members of ASAF. We assume that it will be the IFRS Foundation, based on applications received from each region. Some flexibility should be considered for each region to determine a balanced representation in terms of skill sets and geographies. The degree of maturity of capital market, technical expertise, past contributions to IASB and availability of resources are factors that we believe should be taken into account when selecting the NSS representatives. We would expect the regional bodies and members of the monitoring board to be consulted in this process.

We agree that the membership of the ASAF should be reviewed every two to three years, with a possibility to rotate members periodically. We would expect such review to include an evaluation members' performance.