

Date

Le Président

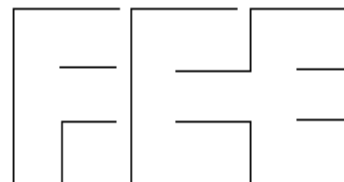
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5 July 2005

Mr. Warren McGregor  
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Dear Mr. McGregor,

Re: Draft Memorandum of Understanding on the Role of Accounting Standard Setters and their relationship with the IASB

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) considered with interest the draft memorandum of understanding on the role of accounting standard setters and their relationship with the IASB and is pleased to submit its comments.

General

2. With the introduction of IFRS for listed companies in Europe, the financial reporting environment has changed with implications for regional arrangements and the role of national standard setters in Europe. At present, at different levels, reflections take place on the role of national standard setters in the future. In Europe in particular, the relationship and cooperation between EFRAG and the national standard setters is of crucial importance and closer collaboration is envisaged, in the immediate future.
3. The draft memorandum of understanding does not provide a definition of “national accounting standard setters”. National accounting standard setters differ substantially in legal form, authority, coverage and whether it concerns a public, private or a mixed public/private organisation. The draft memorandum of understanding does not seem to cover all these different organisations and seems very much drafted with one particular model in mind, whereas it would be important that the memorandum of understanding could be generally used. We doubt to what extent the FASB and Japanese accounting standard setter ASBJ are captured by the document since the IASB already entered into contractual relationships with those standard setters as part of the convergence projects.
4. We consider it as inappropriate that jurisdictions that have adopted IFRS seem to get less prominence than jurisdictions that have not done so. The current arrangements in the draft memorandum of understanding seem for example not to cover EFRAG’s regional role. For Europe, such a relationship with the IASB is of crucial importance. We are therefore of the opinion that the draft memorandum of understanding should be a more comprehensive document dealing both with the relationship between the IASB and national standard setters and between the IASB and regional organisations such as EFRAG.
5. An aspect that we miss in the document is the reference to “meetings” at different levels: world standard setters meeting, regional standard setters meeting, etc.

6. Liaison standard setters played a crucial role in the structure of the IASB so far. The draft memorandum of understanding is unclear as to whether the concept of liaison standard setter is to be maintained with the related privileges attached to this status.
7. The draft memorandum of understanding does not sufficiently make clear to what extent information is in the public domain. The impression should not be given that certain standard setters get privileged information.
8. Section 7 discusses the role of national accounting standard setters in the interpretation process and suggests (7.7) that national standard setters, in certain circumstances, can issue their own interpretations. As mentioned in the Consultative Document: IFRIC-Review of Operations, these interpretations should be restricted to domestic issues. In this context it should be clarified that domestic issues deal with specific national circumstances, in particular specific legal requirements, which are not relevant for other jurisdictions. Furthermore the national interpretation should only come into force after negative clearance from IFRIC, i.e. a statement that IFRIC can see nothing in the national interpretation that is inconsistent with IFRS. IFRIC should be the only body that issues general interpretations on IFRS. Standard setters could further have a role in feeding information to IFRIC and in preparing solutions. However, IASB should not, in form of a draft memorandum, encourage national standard setters to publish their own interpretations of IFRS. This should be limited to very rare circumstances mentioned above and subject to an overrule mechanism by IFRIC or the IASB.
9. If a memorandum of understanding were to be established, we believe that it is important also to address the issues of translation and copyright. At present, many language versions of IFRS in Europe are said to be of poor quality. National standard setters have an important role to play in improving the quality of the translations.

#### Detailed comments

10. Pursuant to paragraph 1.3 of the Draft Memorandum one joint aim of the IASB and other accounting standard-setters is to develop a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements to help participants in the world's capital markets and other users in making economic decisions. This is in line with paragraph 2(a) of the current IASC Foundation Constitution. As stated in our comment letter on the Review of the Constitution, in our opinion SMEs should be mentioned in paragraph 2(a) of the constitution document. We consider therefore, that paragraph 1.3 of the Draft Memorandum should be amended accordingly.
11. Paragraph 2.3 of the draft memorandum of understanding states that accounting standard setters, not the IASB, should take the prime responsibility for identifying and dealing with domestic regulatory barriers to adopting or converging with IFRS. In European jurisdictions, accounting standard setters are not usually in a position themselves to remove regulatory barriers (see paragraph 4), since they lack the necessary regulatory power. The prime responsibility for dealing with barriers is with national governments.
12. Paragraph 2.4 refers to regional regulators: it is not clear to us what is meant: might it be the European Commission or regulators at below national level? If the European level is meant, the IASB should encourage European involvement in the IASB/FASB convergence project. Moreover, we welcome the general message of this paragraph that all standard setters should work towards convergence.
13. Section 3 on Communication is very much focused on the communication obligations of national standard setters whereas it says very little about the obligations of the IASB. A more balanced presentation would be helpful.

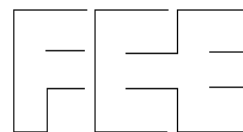
14. Paragraph 3.7 focused too much on interpretations whereas there is a separate section about interpretations. The database presented raises a number of questions:

- Is it widely and publicly available
- Would it not overlap with potential public databases held by regulators such as CESR
- What is the difference with the current list of issues that IFRIC does not decide to take up?

Furthermore, implementing such a database should not replace other activities fostering the communication between accounting standard-setters such as, for instance, the world standard-setters meeting.

(See also our comments on section 7.)

15. In relation to paragraph 3.20, we question why the obligation of funding in the non-technical debate to the IASB would be solely on national standard setters. The IASB itself has a direct role to play if it wants to be seen and to be held accountable.
16. Section 4 on Project Role focuses very much on the relationship between IASB staff, FASB staff and staff of other national standard setters. It would be helpful if Board to Board relationships could also be addressed.
17. In our view, it is unnecessary to state that a national or regional standard-setter “is not prevented from” carrying out research or developing thinking on a topic that has not currently been identified by other standard setters as a current priority as explicitly stated in paragraph 4.3. This choice of wording is unfortunate.
18. Pursuant to paragraphs 4.7 (b) and 4.1 (b) any involvement of national or regional standard-setters in a project team should be under the direction of IASB and/or FASB staff. Firstly, in our view a project team should not be directed by the staff but led by the staff as stated in footnote 6 as, each accounting standard-setter should be able to contribute to an IASB project and not just receive direction from the staff. Secondly, in addition to the IASB staff the staff of other accounting standard-setters should be specifically mentioned. The IASB should not concentrate on its relationship with the FASB since there is a risk that this relationship and the inherent geographical interests will become dominant. Therefore, in our opinion, it is essential that the IASB maintain active liaison relationships with other accounting standard-setters.
19. We disagree with the assertion put forward in paragraph 5.1. The IASB states, in paragraph 5.1, that the views of national or regional standard-setters can be a valuable source of independent thought to complement the comments of those who have financial interest in the outcome of a project. The IASB should consider that also academics and professional bodies, for instance, comment on IFRS, but do not have a financial interest in the outcome of a project. Therefore, we like to suggest that paragraph 5.1 be amended to read as follows: “The views of national or regional standard-setters can be a valuable source of independent thought to complement the comments of specific interest groups.”
20. We do not see the merit of section 8 on Education. We are of the opinion that neither the IASB nor the IASCF should be involved in education. The attention in the draft memorandum of understanding for education is inappropriate.



We would be pleased to discuss with you any aspect of this letter which you may wish to raise with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin'. The signature is fluid and cursive, with the first name 'David' being more prominent than the last name 'Devlin'.

David Devlin  
President