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Mr Warren McGregor
International Accounting Standards Board
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Our ref **MV/288**

Contact **Mark Vaessen**
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22 August 2005

Dear Mr McGregor,

Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB

We are writing in response to the invitation to comment on the International Accounting Standards Board (IASB) *Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB* ("the draft Memorandum"). This letter expresses views on behalf of the KPMG international network of member firms.

We set out below our comments and suggestions under the headings used in the draft Memorandum.

Background

We believe that developing a shared vision of the respective roles of the IASB and national standard-setters (NSS) is important to the successful adoption of a single set of high quality accounting standards in the world's capital markets. We understand that this draft Memorandum aims to reach agreement on approaches, responsibilities and joint working arrangements of IASB and NSS, in order to facilitate ongoing convergence or direct application of IFRSs.

We support the Board's objectives in developing this draft Memorandum and welcome the initiative the IASB has undertaken in this area.

We believe that the Memorandum can benefit from an overview section that would summarise the critical roles of NSS in the IASB standard-setting process. As further expressed below, in our view, the key responsibilities of NSS should be:

- helping the IASB to maintain timely and effective communication with its constituents in local jurisdictions with respect to emerging issues, developing exposure drafts, and new standards

- facilitating timely identification of emerging issues, and participating in related research projects.

Working with regulators

We are concerned that the proposals in paragraphs 2.3, 2.4, and 3.20 must not appear to restrict (or be perceived as a desire to restrict) government agencies' ability to communicate with the IASB directly. In our view, the IASB should assume a primary role in dealing with domestic regulatory barriers, but seek to involve NSS in the process of identifying issues of interest to particular government agencies, bringing them to the attention of the Board, and facilitating discussions with the IASB.

We believe that maintaining direct and open communication between the IASB and its constituents (including regulators) is essential to achieving the objectives of the IASCF Constitution. Such communication is important to the development of trust and understanding between the IASB and regulators, leading to increased acceptance of the standards developed by the IASB. As such, while we acknowledge importance of NSS involvement in the process, we believe that communicating only indirectly with national regulators is unlikely to be an effective way of building consensus and gaining support for continuing adoption of IFRSs.

Communication

Generally, we support the proposals in the draft Memorandum concerning communication (section 3). We agree that NSS should facilitate communication of the work of IASB to their constituents, including translating and distributing relevant material. We are in favour of the proposal that NSS should be able to monitor emerging issues and the development of exposure drafts, to allow them to facilitate timely communication with local constituents (paragraph 3.10). We also support NSS taking an active role in communicating their constituents' views to the Board, without limiting the direct communication from the constituents to the IASB itself. The intention to make IASB board members and staff available for local forums when practicable is a positive development (paragraphs 3.4 and 3.21).

We are in favour of the idea of NSS working together on issues of common interest, and support the Board's intention to help facilitate such process. We question, however, whether maintaining a central database of reported issues (paragraph 3.16) is an effective mechanism for achieving this objective. We would prefer for a member (or members) of the IASB staff to keep a log of emerging issues and help facilitate communication between NSS. We are concerned that any database developed by the IASB should avoid appearing to contain any "official" interpretation or application guidance. This may be difficult, as even the apparent publication by the IASB of divergent views may appear to provide evidence that those views are supportable.

Project Role

We believe that active involvement of NSS in IASB projects is important for many reasons, including the diversity of views and experience and greater understanding of different legal environments that NSS can bring to the standard-setting process and the benefits of building consensus and securing support for adoption or convergence with IFRSs as IASB standards are developed.

However, we are concerned that the proposals for NSS to work under the direction of IASB and/or FASB staff may unnecessarily limit the options and alternatives brought for discussion to the IASB. While a member or members of the IASB staff could potentially be involved in helping facilitate the project and minimise inefficiencies, it is important that IASB and NSS board members communicate directly with each other and work as a team when collaborating on individual projects. In order to minimise subsequent barriers to adoption of new standards, it is important that NSS make timely and effective contribution to the IASB standard-setting process, and that diverse viewpoints and ideas of constituents are given careful consideration at the highest level within the IASB. We also note that while collaborating with U.S. FASB on U.S. GAAP convergence projects is important, the IASB needs to ensure that it remains responsive to the emerging practice issues identified by NSS.

Comment role on IASB consultative documents

We support the proposals in the draft Memorandum concerning the comment role on IASB documents. We believe that it is important that the Board receives comments on IASB proposals directly from individual constituents, in addition to the accumulated comments filtered through the evaluation process of NSS.

We support the Board's intention to provide sufficient time for exposure of consultative documents in local jurisdictions (paragraph 3.17). We do note, however, that there will likely be a substantial increase in volume of comments received by the IASB, which may create need for additional resources.

Application of standards

We support the proposal to have, as a rebuttable presumption, sufficiently delayed effective dates to allow NSS to implement new standards either through national proposals to maintain convergence or through proposals for direct application of the new standard. In our view, a similar approach should be taken to both standards and interpretations.

Whenever possible, we believe that NSS should avoid amending IFRSs in any way before application or convergence in their local regulatory framework. Only when absolutely necessary should a standard be amended in such a way as to permit or require an entity in a local jurisdiction to be in non-compliance with IFRSs. Users of the standards must be made fully aware of any changes that were made to IFRSs before implementing them in local jurisdictions. We believe that appropriately designed communication and collaboration

processes will help minimise the number of instances when amendments to IFRSs are considered necessary by NSS. In this respect, the IASB has the primary responsibility for building sufficient consensus during the development of a standard to ensure that new IFRSs are generally accepted.

Interpretation

We support the proposal for NSS to monitor implementation of IFRSs in their jurisdictions, and bring issues that may require interpretation to IASB's and/or IFRIC's attention (paragraph 7.6).

Ideally, we would prefer not to have interpretations issued by NSS and National Interpretative Groups (NIG) because of the risk of developing national 'dialects' of IFRS. However, with the adoption of IFRSs still in its early stages, reaching a common understanding of IFRS would benefit from more extensive discussions of shared implementation issues at a local level as a supplement to international or regional discussions. In part, entities will be reconsidering how IFRSs should be applied to country-specific practices often addressed directly in national accounting standards but not addressed in IFRSs. Therefore, in the short term, we expect that there will be a heightened demand for guidance in the form of interpretive and/or implementation/application guidance in order to achieve agreement and acceptance of how IFRSs should be applied to these transactions.

Many of these issues will not require an IFRIC interpretation. For those issues that focus on how IFRSs should be applied to a particular national business practice, there might be a perceived benefit at a national level from having discussions of local issues captured in the form of a national interpretation. However, in order to avoid the risks arising from conflicting or overlapping interpretations, we believe that it is critical to have any such work at a national level coordinated and cleared through the IFRIC. This coordination should include clear criteria identifying when a NSS may consider whether it wishes to provide guidance in its jurisdiction through a local interpretation and a process of negative clearance by IFRIC prior to publication of any NSS interpretation.

We set out our views on these issues in more detail in our response dated 18 August 2005 to the consultative document *IFRIC – Review of Operations*. We note that the draft Memorandum alone does not set out a sufficiently clear basis on which to coordinate such interpretations. It may be possible to achieve sufficient coordination through a link between the Memorandum and any procedures adopted further to the IFRIC Review of Operations.

We note that local exchange regulators, through their oversight process, may also seek to interpret IFRSs. We prefer that any such interpretations should be subject to the same process as interpretations by NSS and ask the IASB if a Memorandum of Understanding should be discussed with such bodies.

Education

We infer from the proposals in section 8 of the draft Memorandum that the IASCF intends to develop and distribute training and educational material. As we have noted in previous comment letters, we disagree with this proposal as educational material frequently involves interpretations of the standards. If this material is developed or authorised by the standard setter or a body closely related to the standard setter, it risks the creation of an additional level of interpretive material outside of the IASB's / IFRIC's established due process. The application and interpretation of the standards in educational material will be viewed as IASB guidance even though it would not have been subject to the standard-setting due process. Further, we are concerned that the publication of a body of detailed application guidance by the IASCF that, by its nature, will be very fact specific and may not articulate basic principles will detract from the principles-based approach to standard-setting that the IASB seeks to uphold.

Even if such material contains disclaimers as to its source, nature and use, we believe strongly that such unofficial "official" IASB guidance may lead to confusion among preparers, users, auditors and regulators. We believe that its existence may undermine the position of the IASB as an independent standard setter.

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Please contact Mark Vaessen at +44 (0)20 7694 8089 or David Littleford at +44 (0)20 7694 8083 if you wish to discuss any of the issues raised in this letter.

Yours faithfully



KPMG IFRG Limited