

L. Nelson Carvalho

Professor, Department of Accounting and Actuarial Sciences, School of Economics, B.A. and Accounting, University of São Paulo, Brazil
E-mail: Lnelson@usp.br

December 17, 2012

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Proposal to Establish an Accounting Standards Advisory Forum - "ASAF"

Dear Sirs:

As a long-time player in the field of International Financial Reporting, genuinely interested in helping to see developed and implemented a sole set of robust standards on a worldwide basis for the sake of capital markets, I welcome the opportunity to comment on the Proposal referred to above.

Please take note that, on this occasion, I am writing to you on a strictly personal basis and am not representing any institutions or interest groups.

May I be allowed to take a course of comments somehow different from simply answering the questions you posed in the Invitation to Comment letter.

THE UNDERSTANDING OF POSSIBLE REASONS BEHIND THE FORMATION OF ASAF:

In an environment where the IASB already has quite a significant number of groups and/or institutions to talk to and to exchange views and ideas, it seems in principle somewhat intriguing why a NEW group should be formed.

As a matter of fact, without the pretension of being exhaustive, one can recall advisory or similar groups the Board interacts with like: WSS, IFASS, EEG, IFRS A.C., ANALYSTS, CFO's, besides the natural interaction with the Basle Committee and IOSCO, to name just a few. Additionally, regional groups do play a role in the exchange of views with the IASB, like AOSSG, GLASS and EFRAG.

The only main reason one can think of for forming ASAF would be an attempt of the IASB to significantly reduce the number of jurisdictional stakeholders it dialogues with – replacing them with regional representative groups.

L. Nelson Carvalho

Professor, Department of Accounting and Actuarial Sciences, School of Economics, B.A. and Accounting, University of São Paulo, Brazil
E-mail: Lnelson@usp.br

If that is the intention, it is well conceived but, in my view, with all due respect, completely out of timing.

If one looks at the EFRAG's bylaws, they clearly state that EFRAG has the mandate to speak as one and single voice for the region it represents, and members agree to comply with it:

EFRAG
Article 4: OBJECTIVES

4.1. (skipped)

4.2. Activities that the Association intends to carry out in order to attain this objective may, among other things, be to:

- Provide its opinions in order for the European Commission to take a view on endorsement of any IFRS for application in the EU and as requested on IFRS interpretations;
- Provide reports as requested to the European Commission reflecting, particularly, European perspectives, give reasoned opinions on upcoming financial reporting issues and help identifying issues that need to be addressed by the IASB
- Provide its opinions in order for the European Commission to take a view on issues related to the development and the improvement of the standards and their effective implementation in the European area;
- Provide technical input on exposure drafts, possible consequences of proposed accounting solutions or proposed standards for companies operating in the European environment with the objective that European concerns and practice are properly taken into account. In close consultation with the European Commission, the Association will participate in the early phases of debate on all issues related to the standard setting process. In such a role, the Association will, when requested by the European Commission attend working groups of IASB, liaise with national standard setters and hold Advisory fora;
- Recommend appropriate changes to EU Directives at the request of the European Commission;
- Consult the European Commission on its work programme and inform it of its work on a regular basis;
- Support the further integration of efforts of national standard setters, businesses, the accounting profession and other stakeholders in Europe in order to make an efficient use of available know-how in the area of financial reporting within the EU;
- Undertake educational activities in order promote the knowledge of IFRS in Europe;
- Develop other activities which it considers useful to achieving its general objectives.

(Underlining and red lettering added).



L. Nelson Carvalho

Professor, Department of Accounting and Actuarial Sciences, School of Economics, B.A. and Accounting, University of São Paulo, Brazil
E-mail: Lnelson@usp.br

You shall not find such a mandate so specific, so demanding and so encompassing in any other regional group of standard setters that the Board deals with at the present.

If we look at the "Vision" document of AOSSG, the difference in mandate becomes clear:

As stipulated in its Memorandum of Understanding, the AOSSG has the following four objectives:

(1) Promoting the adoption of, and convergence with, the IFRSs by jurisdictions in the region

The AOSSG aims to promote the adoption of, and convergence with, the IFRSs by jurisdictions in the region. The AOSSG does not endorse IFRSs for the region—AOSSG members may individually have that role in respect of their jurisdictions.

(2) Promoting consistent application of the IFRSs by jurisdictions in the region

The AOSSG aims to promote consistent application of the IFRSs in resolving common accounting issues to enhance transparency of financial markets in the region.

(3) Coordinating input from the region to the technical activities of the IASB
The AOSSG aims, in the public interest of the region, to play an active role in technical activities of the IASB and contribute to a single set of high quality global financial reporting standards.

(4) Cooperating with governments, regulators and other regional and international organisations to improve the quality of financial reporting in the region

The AOSSG aims to establish relationships with governments, regulators, and other regional and international organisations to improve accounting practices, enhance the quality of financial reporting and facilitate cross-border trade, investments, and governance in the region.

The AOSSG communicates with the IASB (primarily), the IFRS Interpretations Committee, IFRS Foundation Trustees, IFRS Advisory Council and IFRS Foundation Monitoring Board. In addition, the AOSSG meets face-to-face formally with the IASB once a year and informally at least twice a year to discuss AOSSG's views in relation to IASB technical and other activities, as well as AOSSG initiatives. When commenting on IASB documents, AOSSG's views reflect the collective views AOSSG members without interfering with the authority of member standard-setters regarding whether and how to apply the standards proposed or published by the IASB. If AOSSG members hold differing views, those differing views are reflected within AOSSG comment letters. Individual member standard-setters may also choose to make separate submissions that are consistent or otherwise with aspects of the AOSSG comments. The intention of the AOSSG is to enhance the

L. Nelson Carvalho

Professor, Department of Accounting and Actuarial Sciences, School of Economics, B.A. and Accounting, University of São Paulo, Brazil
E-mail: Lnelson@usp.br

input to the IASB from the Asia-Oceania region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold.

(Underlining and red lettering added).

GLASS has not, similarly to AOSSG, the authority nor the mandate to speak ON BEHALF OF THE REGION when and where jurisdictions have differing views about a Financial Reporting technical issue.

If the understanding of the IASB objective stated above is correct, it is poorly timed: except EFRAG, other regional entities have NO MANDATE to represent their regions as the ultimate word, and the ASAF initiative will do more harm than good: individual countries shall merely change the forum for presenting their views (from IFASS, A.C., EEG or any other) and regional representatives shall have no authority whatsoever to speak on behalf of their regions.

This may be an interesting objective to be pursued – to reduce the number of stakeholders the IASB has to dialogue with – but not in a foreseeable future. In these times when there are jurisdictions still very early in their “learning curves”, and important jurisdictions still prevent from converging, it is my strong conviction that ASAF should NOT be formed now and initiatives be undertaken by the Trustees and Board to enhance the functioning of the existing *fora*: WSS, IFASS, and particularly the IFRS Advisory Council.

Your objective is well defined but it is not fit to be implemented in the next few years – or at least not before:

- a) Improvements are implemented in the bylaws or terms of reference of the A.C., and in the working relationship of the Board with IFASS, and
- b) Regional organisations are given the time to consider and negotiate among their members if, how and when they could implement an adequate mechanism of consultation that shall allow one of them to speak on behalf of the entire regional membership.

OTHER COMMENTS:

I strongly suggest the Chairman of ASAF, if this Forum is ultimately implemented, be NOT the Chairman nor the Vice-chairman of the IASB – there is a conceptual mistake in assigning the “advised one” to chair the group of his own “advisors”.

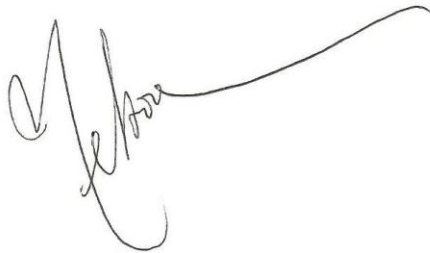
L. Nelson Carvalho

Professor, Department of Accounting and Actuarial Sciences, School of Economics, B.A. and Accounting, University of São Paulo, Brazil
E-mail: Lnelson@usp.br

I strongly suggest you reconsider the number of 12 members of ASAF, if this Forum is ultimately implemented. The risk is that political factors interfere in the appointment of members, and early supporters of IFRS be left out of the Forum, severely disappointing all the efforts these early arrivers put in place along all these years. It is an almost impossible task to try to come up with a final and exact number of members that please all, but common sense suggests that the world cannot possibly be adequately represented by 12 people.

I had the occasion to raise most of these issues in an informal conversation with Mr. Hans Hoogervorst, your Chairman, when we met at the Accounting for Sustainability Forum held by HRH The Prince of Wales last November 13 in London. Should you have nothing in contrary, please be kind to copy this letter to Mr. Hoogervorst.

Cordially

A handwritten signature in black ink, appearing to be 'L. Nelson Carvalho', with a long, sweeping horizontal line extending to the right.