

27 July 2005

Mr McGregor  
International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

Dear Mr McGregor

**THE ROLE OF ACCOUNTING STANDARD SETTERS AND THEIR  
RELATIONSHIP WITH THE IASB**

The Institute of Chartered Accountants in England and Wales welcomes the opportunity to submit comments on the *Draft Memorandum of Understanding on the Role of Accounting Standard-Setters and their relationship with the IASB*, published by the International Accounting Standards Board ('the Board') for comment in April 2005. The Institute is the largest accountancy body in Europe, with more than 126,000 members operating in all sizes of business, public practice and within the investor community. The Institute operates under a Royal Charter, working in the public interest.

We welcome the decision to codify the relationship between the Board and other national standard setters. This is highly desirable given the fundamental changes underway in the international standard-setting and financial reporting environments. In general, we support the suggested contents of the memorandum, which provides a firm platform for the future relationship of the Board and national standard-setters around the world. However, we have some major concerns regarding its scope and some of its underlying premises.

***Relations with the FASB***

The draft memorandum purports to express a 'general understanding between the IASB and other accounting standard-setters' (paragraph 1.1). However, only passing reference is made to the important joint working relationships established with the US standard-setter (paragraphs 4.5, 4.7b), and the US and Japanese standard-setters are clearly regarded as beyond the scope of the document. In this sense, the memorandum is incomplete, and this should at least be acknowledged and explained - or, better still, remedied - in the final version.

More importantly, implicit in the current draft is a highly unequal relationship between the Board and its chosen partners in the standard-setting process and the 'other' standard-setters. For example, the 'others' are 'not prevented' under the terms of the memorandum from undertaking independent research or thinking (paragraph 4.3); they may be provided with the opportunity to contribute in a project team 'under the direction' solely of FASB staff (paragraphs 4.1b/4.7b); and reference is made to the dangers of the Board 'losing its independence' if it works with standards setters other than the FASB on selected projects (paragraph 4.1). In relation to this latter point in particular, we are not sure why the IASB seems to find it acceptable to risk losing its independence through working with the FASB, but not through working with other national standard setters.

In some cases, this differentiation might properly reflect the experience, credibility and resources of national standard-setters. In other cases, it does not. The UK Accounting Standards Board, for example, has played a distinguished and influential role in developing high quality and robust accounting standards of international significance, for example in relation to pensions accounting. Those standards have been used until very recently by a significant proportion of the world's listed companies. In our view it is important to maintain the capacity of such established standard-setters for independent thinking and insights on accounting issues.

Our reservations regarding the draft memorandum mirror our concerns over the general process of convergence with US GAAP. The US regulatory regime has a specific historical background and the accounting requirements for public companies are predicated on a very different basis to that in other jurisdictions, and one which may not suit a regime of international standards. Until very significant changes to the US standard-setting environment and existing US accounting literature are implemented, it seems inevitable that convergence will lead to more detailed rules and complexity in IFRS because of the likelihood that IFRS preparers, auditors and regulators will refer routinely for answers to the more extensive body of rules found in US GAAP in preference to exercising judgement based on the principles of 'substance over form' and the 'true and fair view'. Whilst we recognise that there are important proposals for change under consideration in the US (for example, to simplify the GAAP hierarchy or to introduce objectives-oriented standards), to date there have been too few actions to institute any change, such as a cessation of the practice of SEC staff of issuing technical accounting guidance and FASB staff issuing 'staff views'. The objective of early convergence with US GAAP - or with any other GAAP - should not obscure the overriding importance of establishing and upholding a set of international standards that are high quality, robust and understandable, nor lead in effect to the disestablishment of the International Accounting Standards Board as a unitary and autonomous global standard-setter.

In our view it is not too late to submit the fundamental aspects of convergence - including objectives, pace, preconditions, joint working relationships and a periodic assessment of its results and impact - to rigorous due process and meaningful public debate.

### ***Other Concerns***

Section 7 of the draft memorandum deals with the role of national bodies in the interpretation process. We broadly support the analysis, but suggest that the tone of paragraph 7.7 should be less sanguine over the possibility of national interpretations of IFRS. The memorandum should place stronger emphasis on the sole responsibility of IFRIC for issues that are - or might be, or might become - of relevance in more than one jurisdiction, and the need for some form of IFRIC involvement before such national interpretations are published. The development of a patchwork of precedents - highly variable in status and origin - will lead inexorably to complexity for companies and their auditors and to inconsistent, multi-layered guidance. It will jeopardise the primarily principles-based nature of IFRS. Ultimately it has the potential to undermine the credibility of IFRS financial reporting.

European national standard-setters are continuing to forge closer links with EFRAG, and it is likely that co-operation and common working will increase in the coming months and years. The memorandum should be flexible enough to deal with the relationship between the Board and regional organisations and alliances, including EFRAG, as well between the IASB and national standard-setters.

Finally, we suggest that paragraph 1.3 is updated to take account of recent changes to the IASC Foundation Constitution, particularly in relation to SMEs.

We will be happy to provide any further information or clarification.

Yours sincerely



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