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Dear Sir

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

The global organisation of Ernst & Young is pleased to comment on the Draft Memorandum of Understanding on the Role of Accounting Standard-Setters and their relationships with the IASB ("the Draft Memorandum").

The widespread international adoption of IFRS this year and the complex and controversial nature of some of the IASB's standards and proposed standards are already prompting questions about the accountability of the IASB on the one hand and the role of national regulators and standard-setters in interpreting IFRS on the other. These issues will be raised increasingly as IFRS financial statements are prepared and filed with regulators. In our view they are the essential context in which the future role of Accounting Standard Setters ("ASSs") in relation to IFRS and their relationships with the IASB should be defined.

The draft Memorandum does not, however, discuss these issues or the wider context at all – the 'Background' section of the document merely reiterates the constitutional aims of the IASB and asserts that the responsibilities assigned to ASSs in the document will contribute to those aims.

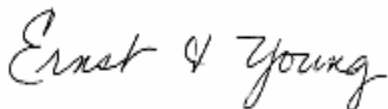
Inevitably, the role of ASSs in relation to the IASB will be to act as a channel of communication with and a technical resource for the IASB. The draft Memorandum sets out a range of activities all of which appear to be appropriate. However, in the absence of any discussion of the IASB's overall strategy it is impossible to know how important the IASB regards each of the activities discussed in the draft Memorandum and to what extent it intends to use and rely on the ASSs in relation to the activities described.

The draft Memorandum can be read as saying that the IASB sees ASSs as having only a minor supporting role in relation to IFRS. Alternatively, it can be read as saying that ASSs will provide independent and soundly-based input to the IASB on IASB proposals and will be a principal source of resources for IASB projects. We suspect that the former interpretation is closer to what the IASB actually intends than the latter, in view of the overriding priority it appears to be giving to working with the FASB.

If so, the IASB risks alienating further the current IFRS user community who already feel cut off from the standard-setting process and also increasing pressure for national amendments to and interpretations of IFRS. In our view, ASSs have a key role to play in understanding and communicating to the IASB the needs of their local markets, focusing on the practical aspects of implementing and applying IASB proposals through such mechanisms as public hearings and field visits or tests. Only if due importance is seen to be given by the IASB to such activities and processes will it be possible to resist pressure for national or regional versions of IFRS and IFRS interpretations. On a practical level, moreover, if the IASB does not persuade ASSs and national regulators of the importance of their activities to the standard-setting process, ASSs will have increasing difficulty in recruiting and retaining suitably qualified staff and the IASB will itself need to fill the gap or risk growing dissatisfaction among users about failure to address their practical needs.

We address each of the sections in the draft Memorandum in Appendix 1 to this letter. If you wish to discuss this letter with us, please contact David Lindsell on +44 20 7980 0106.

Yours faithfully



Appendix 1 – Comments on each of the sections of the draft memorandum

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

1. **Background.** As noted above, the absence of any discussion of the wider context in which the recommended responsibilities are being put forward makes it impossible to assess the IASB's true expectations in relation to ASSs.
2. **Working with Regulators.** The Draft Memorandum proposes that ASSs and not the IASB should take on the role of dealing with domestic regulators in relation to adoption of or convergence with IFRSs. We agree that this is an important ASS responsibility but are surprised that the IASB does not regard itself as having any role in relation to this activity, particularly as the need increases to discourage national regulators from issuing their own interpretations of IFRS.
3. **Communication.** As with other sections of the draft memorandum, the responsibilities listed are unexceptionable and the key issue is how they will operate in practice. We endorse 3.21 in particular, as it involves positive action by ASSs to understand the practical needs of users in their country or region and communicate them to the IASB, which we see as key to ensuring that IASB proposals respond to those needs.
4. **Project Role.** The difference between "research project" and "project team" is not clear. In both cases it seems that staff would simply be part of a wider IASB or FASB team and would not have any autonomy to undertake research on their own. The ability of ASSs to provide resources IASB projects will depend on the ability of ASSs to recruit and retain high quality technical staff following the loss of much of their previous standard-setting role. There are already signs that ASSs are finding this more difficult and it may become necessary for the IASB to resource its own staff in different countries in the world. In addition, the role of the FASB is clearly elevated and the role of national standard-setters significantly reduced. The priority given to the FASB, as evidenced in the proposals in section 4, make it clear that the other national standard-setters are not considered real stakeholders in the process of international standard-setting. This is ironic given that the other countries have committed to adopting IFRS while the U.S has not.
5. **Comment role.** The value of the comment role will depend on how successful ASSs are in obtaining participation by their constituents in round-tables, public hearings and field visits.
6. **Application of standards.** We agree that the IASB standards should not be modified in individual countries. However, this in turn requires the IASB to address the legitimate concerns of its constituencies in relation to IASB or IFRIC proposals before they are finalised, as should have happened but did not in the case of IFRIC 3.
7. **Interpretation.** In our view paragraphs 7.4 and 7.7 give too much encouragement to ASSs and national regulators to issue their own IFRS interpretations. In our view there are very few uniquely 'local' issues and local interpretations will increase the likelihood of international inconsistency, while issuing interpretations of matters that do not have broad relevance will result in a rules-based approach.
8. **Education.** In our view the role of the IASB and ASSs in relation to IFRS education should be limited to encouraging commercial entities to develop and promote educational material.