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Ms Andrea Pryde
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom
CommentLetters@iasb.org

RE: Strengthening the IASB's deliberative processes

Dear Ms Pryde:

Merrill Lynch takes great interest in the accounting standard-setting process and therefore appreciates the opportunity to comment on the International Accounting Standards Board's (IASB) review of its own deliberative processes.

Overall, we fully support the IASB's proposals for strengthening its deliberative processes including the use of an appropriate expert group for fatal flaw reviews and greater use of advisory groups and other working parties, public hearings, field visits and field testing. We believe that given the complexity of many of the issues that the IASB is tackling, the use of expert input from individuals who have direct, "hands-on" experience with the issues in question will significantly enhance the standard setting process.

Merrill Lynch recognises the considerable pressure that the IASB was operating under in order to meet the March 2004 deadline for the issue of Standards to be applied from 2005. Now that this has largely been completed, we believe it is a good time to review and reinforce the IASB's deliberative processes.

I have detailed below some specific comments on the individual proposals made by the IASB in its paper entitled "Strengthening the IASB's deliberative processes":

▪ *Publication on the IASB's website of latest proposals for new standards*

We support the proposal to make near final drafts of forthcoming exposure drafts and standards available on the IASB's website. However, we believe that this could be

used to extend the fatal flaw process by allowing constituents to provide comments on these drafts. The IASB should, however, make it clear when publishing these documents that they will only accept drafting comments and that the review process cannot be used to re-open debate on issues that have been previously approved through the IASB's due process.

We realise that a fatal flaw comment period will extend the process and the workload of the staff; but believe the benefits, e.g., significant reduction in the quantity and extent of subsequent corrections or amendments having to be issued, greatly outweigh the costs.

The IASB has also proposed the use of a two-column format to incorporate the effect of Board decisions on exposure drafts to aid constituents in understanding the likely effect of these changes on the final standard. We believe the two-column format will improve constituents' ability to follow the cumulative effect of Board decisions as this can sometimes be difficult to ascertain from the Board meetings. However, we would expect any such analysis to focus on the significant changes and decisions.

- *Use of steering committees/working parties/advisory groups*

As noted in our letter on the IASCF Constitution Review dated 11th February 2004, we believe that the IASB should make greater use of task forces and working groups comprising industry and technical specialists in the standard setting process, including in its fatal flaw review process. This would enhance the knowledge and experience available when developing standards, particularly in more complex areas of accounting such as financial instruments and should also increase the involvement of the analyst community in the standard setting process. In this regard, we are pleased to note the IASB's proposals to establish advisory groups for its on-going review and development of IASs 32 and 39, and its project on reporting comprehensive income and would be pleased to contribute to these groups as appropriate.

- *Public hearings and field testing*

As above, we also believe that the IASB should make greater use of public hearings, field visits and field testing as part of the standard setting process and welcome the proposal to make these a more common feature of its work.

We would like to highlight the merits of field testing in particular, when used appropriately; it will identify flaws in accounting theory and most unresolved issues with a new or significantly changed accounting standard.

- *Other matters*

As noted in our letter on the IASCF Constitution Review, we believe it is imperative that the IASB does not allow due process to be compromised by allowing policy to be established through speeches and/or other comments and communications by Board members or other bodies associated with the Board as currently occurs in some other

jurisdictions. If accounting policy is set outside the normal channels, we believe its impact on related accounting would not be fully understood or considered, potential transition guidance and timing of transition are not developed or communicated, and actual communication of the change or new guidance is at best random.

We also believe that the IASB should adopt a 'supermajority' approach when approving exposure drafts and standards whereby at least 75% of the Board should vote in favour of such proposals in order for them to be issued.

In conclusion, and as noted in our letter on the IASCF Constitution Review, we believe it is important that the standard setting process be fully transparent and independent, and that all constituents with an interest in the process have the opportunity to express their views. The changes to its deliberative processes proposed by the IASB should contribute to this objective, and, accordingly, we support these proposals. Notwithstanding this, however, we believe it is also important that an appropriate balance and flexibility is provided within due process in order that it can be tailored according to, for example, the complexity and contentiousness of individual projects and proposals.

We hope our comments will be useful to the IASB. Please do not hesitate to contact Esther Mills (+1 212 449 2048) or me if you have any questions on our comments.

Sincerely,

/s/ Cynthia A. Rumpza
Director of Accounting Policy