

Regus Centre
75 Cannon Street
London EC4N 5BN

24 June 2004

Ms Andrea Pryde
IASB
30 Cannon Street
London EC4M 6XH

Dear Ms Pryde

Strengthening the IASB's deliberative processes

With a membership in excess of 37,000, the London Society of Chartered Accountants (LSCA) is the largest of the regional bodies that form the Institute of Chartered Accountants in England & Wales. London members like those of the Institute as a whole, work in professional services practice or in business. The London Society operates a wide range of specialist committees including Technical (accounting and auditing), Tax, Regulation and Ethics Review and Financial Services and Insolvency, which scrutinise consultation papers and make representations to issuing bodies.

We are supportive of the IASB's efforts to follow best practice in all respects in its deliberative processes and we fully appreciate and recognise the difficult environment in which the IASB is operating at present. In this context then, we have the following specific comments and suggestions with regard to the IASB's paper and the changes it proposes.

- 1 As we noted in our response to the IASCF's constitutional review, there is widespread cynicism, in varying degrees, about the IASB's commitment to the spirit rather than the form of due process. It is clear that many who have an interest in the Board's work, and would wish it success, can easily feel disenfranchised by the Board's perceived approach to respondents' views.
- 2 A recent example of this was the ED 4 consultation. Many observers perceived that the Board, in an attempt to finalise the standard quickly, considered that the already-stated objective of converging with US GAAP overrode any concerns expressed by respondents, or any suggestions for potential improvements. This was exacerbated by the lack of evidence from FASB that it had considered the success or otherwise of other standards on the same subject (including IAS 35) when it had been developing its own standard, on which ED 4 was based.

- 3 A second example was the recent exposure draft to IAS 39 to amend the fair value option following pressure from EU regulators. This is likely to lead to considerable cynicism and disquiet, particularly outside the EU. Given that the issue was raised as part of the original consultation process, and in view of the current political climate, commentators may question whether it is worthwhile expressing their views again.
- 4 There is little evidence of the Board reaching the optimum high-quality solution in circumstances such as those we have outlined. We therefore emphasise that the management of public perception is of vital importance in order to maintain support from participants around the world in the due process. Unfortunately, the overall tenor of the current paper seems to focus on form rather than substance in its approach to due process.
- 5 A balance must be struck by the IASB (as with all standard setting bodies) between the need to demonstrate a transparent due process and the cost of doing so, in the context of being an effective and efficient standard-setter. Like other bodies, the IASB is constrained by its resources and in our view the bulk of staff time ought to be spent on work directly related to developing new and improved standards. Therefore we welcome suggested improvements, some of which are already in place, notably: improvements to the Observer Notes, better use of the IASB website with more timely posting of information and the provision of near-final drafts and fatal flaw reviews.
- 6 However, we are concerned that some of the proposals may repeat information that can be found elsewhere and take up an inordinate amount of staff time. By way of an example, we cite the proposal for the provision of a summary of the Board's position on the major points raised in comment letters (paragraph 17). This information can be found simply by reading the reports of the Board meetings in the IASB's newsletters, and in commentary produced by others.
- 7 Similarly, the proposal in the first bullet of paragraph 20 of the paper looks extremely onerous; those who have followed the debate on a standard with reasonable diligence should be able to assess such changes without an analysis of this nature. It may be that, in the rush up to the 31 March 2004 deadline for adopting standards for application in 2005, it has been more difficult to follow such changes because so much has been going on. However, it would be hoped that in the future, without such stringent deadlines, things should become more regularised. It may also be that the format of newsletters and updates produced following Board meetings can be modified to better communicate changes, and their implications for the text of the standards, without involving much additional staff resource.
- 8 We agree that the Board should retain flexibility on some of the 'optional' parts of its due process. It will not always be appropriate to set up an advisory group, issue a discussion paper or carry out public hearings or field testing on a particular issue or project. Nevertheless, the Board may find it helpful to state, in relation to each main project, which of these optional steps it has decided is not necessary (subject to subsequent developments) and why.

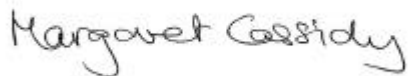
In conclusion, we recognise that circumstances over the last two years, in particular the 2005 deadline that was imposed by the EU, have made life difficult for the IASB. There has been a perception that due process may not have been followed in all cases. In addition, things have been made more difficult than they should have been for users and preparers by rapid issue of

standards followed by swift proposals for revision. This does not maintain the Board's credibility.

Those circumstances should be less complex in the future and we hope that it will be easier for the IASB to operate in a robust and straightforward manner. Nevertheless, there is some work to be done on improving the actuality and the perception of due process that has taken place recently and this should be addressed by the IASB. We therefore welcome, subject to our comments above, the changes proposed by the IASB.

If you have any questions on the points raised in this letter, please contact me, or alternatively Kathryn Cearn, joint author of this letter and Chairman of LSCA Technical Committee as from July 2004, at the address above.

Yours sincerely,

A handwritten signature in cursive script that reads "Margaret Cassidy".

Margaret Cassidy
Chairman
LSCA Technical Committee