EFRAG
European Financial Reporting Advisory Group

Sir David Tweedie
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International Accounting Standards Board
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12 June 2008

DRAFT COMMENT LETTER
Comments should be received by 14 July 2008
and sent to Commentletter@efrag.org

Dear Sir David

The IASB/FASB Memorandum of Understanding

We have noted that in recent months the IASB has been working on an update of the existing IASB/FASB Memorandum of Understanding to incorporate new milestones covering the period to 2011. A paper was discussed at the joint meeting of the IASB and FASB in April[1], and some tentative decisions were taken. Further papers based on that earlier paper and discussion will, we understand, be discussed at your June Board meeting.

Our understanding is that these discussions will play a fundamental role in determining the IASB's priorities for the next three years. As Europe is currently by far the biggest user of IFRS (in terms of companies), we are probably more interested than most in those priorities and in the IASB's work programme in general. We therefore thought it important to let you know our views on the issues being discussed. Those views are set out in the numbered paragraphs that follow.

Please note that this letter is based on the April paper and discussion, and that some of the comments in it might need to be amended in the light of your June discussion and decisions.

Getting IFRS ready for the US and other significant countries

1 EFRAG is a strong supporter of the notion of having a single set of high-quality standards that are applied throughout the world. We are therefore very appreciative of the work that the IASB has done over the years to move accounting in the direction of that goal. We recognise that one of the next big targets is for the US, Japan and China to start using IFRS and that, in order to make that possible, a

[1] A copy of the IASB Observer Note version of this paper can be found at the following link: http://www.iasb.org/NR/rdonlyres/EDE9142B-E772-4945-97F4-77E78A383DE3/0/0804j03obs.pdf

proportion of the IASB's resources will need to be allocated to projects that make IFRS more attractive to jurisdictions that are not currently using IFRS. That is an important objective of the work that the IASB is doing to update the MoU and we support that objective.

2 Furthermore, we broadly support the IASB's decision to base its planning on the assumption that a number of significant countries might be ready to move on to IFRS in 2013 and that a stable platform needs to be in place two years before that—in 2011.

3 Finally, we also agree with the basic approach adopted in the paper, which is to identify as priority projects those improvements that need to be made to IFRS by 2011 if moving to IFRS is not to be seen by first-time adopters and users as a backwards step and those other improvements to IFRS that are seen as essential because of the seriousness of the existing weaknesses in IFRS.

<u>The credit crunch</u>

4 There is another factor that is playing an important role in the IASB's planning. As a result of the so-called 'credit crunch' and resulting market turmoil, the IASB is carrying out work into possible weaknesses in IFRS that have the potential to create, aggravate or obscure from view problems that exist. We recognise that this will involve a lot of work and that work will need to be carried out in a very short space of time and as such has to be given a high priority.

<u>A question of balance</u>

5 The key issue for jurisdictions like Europe in these circumstances is whether an appropriate balance will be achieved between the interests of those jurisdictions using IFRS and those that are currently not using IFRS. There are several aspects of the proposals that the IASB is considering that concern us in this respect.

(a) We are concerned about the implications of this prioritisation exercise for projects that are not mentioned in the MoU and are not 'credit crunch projects'. We are thinking here particularly of the Insurance project. A comprehensive high-quality standard on insurance accounting is urgently needed in Europe and, because of Solvency II, the time is right for such a standard. In view of this, it would be very disappointing if work on the IASB's insurance project were to be given a lower priority than at present. We understand that there are no immediate plans to give the project a lower priority, but we also understand that, if the IASB needs to allocate more resources to the MoU projects in the years immediately before 2011; the intention would be to re-allocate resources allocated to projects like insurance. We do not think this is appropriate. Jurisdictions already on IFRS are entitled to expect 'their standard-setter' to allocate a proportion of their resources to carrying out work designed to enhance the quality of IFRS in a way that will benefit all IFRS users.

(b) We are also concerned that some of the approaches proposed in the paper to speed up MoU projects seem to place US views above the views of other jurisdictions. We are thinking here particularly of the Fair Value Measurement and Equity/Liability projects.

(i) On Fair Value Measurement, we are concerned about the proposal in the paper that many of the issues that the IASB's constituents had most difficulty with—for example, market participant view, highest and best use, and principal market—should be implemented without even being re-debated. When the IASB decided to issue a FASB standard (FAS 157) as an IASB Discussion Paper, we were very concerned that the IASB would feel obliged to implement FAS 157 largely unamended. We were assured however that issuing FAS 157 as an IASB Discussion Paper would not limit the IASB's ability to reach other conclusions. However, we think that is exactly what is now being proposed. Although the IASB has promised to have a comprehensive debate about measurement, it is now close to proposing to incorporate into IFRS a major US standard on measurement without having a debate.

Having said that, we agree with the IASB's assessment that an IFRS on Fair Value Measurement is needed if there is not to be a gap in IFRS when viewed from a US perspective. On the other hand, it is important to bear in mind that the term 'fair value' is more widely used in IFRS than in US GAAP; in other words, whilst there might be a pressing need to incorporate FAS 157-type material into IFRS for use in the circumstances in which US GAAP requires FAS 157 to be used (ie in accounting for financial instruments and business combinations), there is no pressing US need to incorporate it into IFRS for use in the other places that IFRS refers to 'fair value'.

(ii) On Equity/Liability, we are concerned at the implication in the paper that the IASB might limit its deliberations to the three approaches mentioned in the recent FASB Preliminary Views document on the subject. The IASB is still consulting on those approaches, so it seems premature to reach any conclusions about whether they represent a good basis for developing an IFRS. We, for example, think there are other approaches that are just as worthy of consideration.

Incidentally, although the paper describes the Equity/Liability project as a priority project for the US, it is an important project for Europe too.

Other comments

6 We are not convinced that a sufficiently strong case has been made to carry on working on the projects formerly known as the short-term convergence projects. We recognise that in some cases these projects are reasonably well-advanced, but an allocation of resources is still needed if they are to be completed and we are not convinced that that resource allocation can be justified. In our view the projects will achieve relatively little but will be resource-hungry because they are relatively controversial.

7 We note that the paper proposes that one way to accelerate progress on SPEs might be to develop and articulate a set of principles that underpins FIN 46R. It is our understanding that FIN 46 in its various forms has not so far proved to be a particularly successful standard. Bearing that in mind, it might be preferable to search elsewhere for principles that can be used to account for SPEs.

8 We have argued on several occasions recently that the IASB should allocate resource to addressing cross-cutting issues. The April paper argues paper that, whilst a good idea in theory, it does not work in practice because standard-setters do not feel bound by the decisions they have taken on cross-cutting issues. We do not understand why that should necessarily be so; if the issue is debated thoroughly

in the first place (both by the IASB and through public consultation), there should be no reason to re-debate the issue again. We would therefore urge the IASB to stick with its original decision and allocate some high-quality resource specifically to the resolution of the key cross-cutting issues. Such an approach would result in much-needed consistency (across projects) and efficiency (in that it would not be necessary to keep re-debating the same issue). If the IASB really thinks there is little point allocating resource to addressing cross-cutting issues because decisions on such issues cannot be 'made to stick', we would question the value in spending so much time developing a conceptual framework; the framework is, after all, really only a collection of solutions to the most common high-level cross-cutting issues.

The need to consult over agenda decisions and prioritisations

9 The IASB is probably one of the most transparent organisations in the world and its due processes are generally very good. However, one area in which they could be improved is the agenda decision process.

(a) Currently the IASB's agenda decision process does not involve a public consultation stage. We think it should. The IASB is setting standards in the public interest and the public is therefore entitled to be consulted.

(b) We believe that, for this purpose, "the IASB's agenda decision process" should include major decisions about priorities, because changing the priorities that are attached to projects can have a fundamental effect on the day-to-day work of the IASB.

If you have any questions about this letter, please do not hesitate to contact either me or Paul Ebling.

Yours faithfully

Stig Enevoldsen
EFRAG Chairman