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Dear Mr Tidstrom

Proposals for public consultation*: Strengthening the European contribution to international standard-setting process*

We appreciate the opportunity to comment on the EFRAG consultation document: *Strengthening the European contribution to international standard-setting process*. The views expressed in this letter are those of KPMG Europe LLP whose network comprises the KPMG member firms of Germany and the United Kingdom, and as of 1 October 2008, the KPMG members firms of Spain and Switzerland.

In summary, we believe that the EFRAG restructuring proposals are a first step in the right direction and therefore support them. We agree with your assessment, in the foreword to the proposals, that these changes are evolutionary rather than revolutionary; enhancements rather than a major overhaul. Given the pace of developments and changes that are bound to happen over the next few years as much of the world adopts IFRS, we strongly recommend EFRAG to keep reviewing its own structure and operational effectiveness on a regular basis.

Despite Europe being the first major economic bloc to adopt IFRS, and therefore being the IASB's first major customer, it has at times struggled to get across its views to the IASB, and hence to influence the priorities in the IASB work programme or the direction of any major projects. Because of the ongoing convergence and the Memoranda of Understanding between the IASB and FASB, the United States have had a privileged position in this respect. The restructuring proposals are aimed at strengthening the voice of Europe in the international accounting standard setting debate through a better cooperation within Europe of the major parties that have the capacity and experience to do accounting research. We consider that this is a legitimate objective.

We agree that the emphasis of EFRAG's strengthening should be on the pro-active activities, in developing own research and discussion papers, building on the cooperation that has been taking place through the PAAinE activities. In our view, the key to a successful cooperation will be to ensure that the PAAinE work continues on a collaborative basis, which takes goodwill both from the national standard setters and EFRAG.

In the new set-up, we would like to see the proactive work being done in an even more coordinated fashion. At present, there is sometimes at least a perception that EFRAG is trying to pre-empt the IASB's discussion papers at a relatively late stage, that is, shortly before the IASB issues an own paper on a topic.

Although there may have been valid practical reasons in the past, we would rather see that EFRAG produces its research on a topic well in advance of the IASB issuing its own discussion paper, so that the collective European thinking that EFRAG has produced can be fully reflected in the IASB's deliberations. Ideally, EFRAG should agree with the IASB in advance that it will take on certain research projects in partnership with the IASB.

EFRAG's redrafted statutes should stress the importance of the pro-active work and equally underline that it is not EFRAG's role, nor ambition, to become a standard-setter in its own right.

As an international network of member firms, KPMG always has been supportive of having one single set of high quality, global financial reporting standards for worldwide use. Recent developments, including those in the US, are bringing the prospect of having truly global standards closer. These major shifts in the acceptance of IFRS do warrant reflection by all stakeholders as to how the global financial reporting infrastructure will be affected and, indeed, how this infrastructure is likely to look like in 3 to 5 years time.

As we go forward, and IFRS are used by even more countries globally, it is key that national and regional standard setters, as well as organisations like EFRAG and preparers and users organisations, all rethink the way in which they organise themselves to interact and communicate with the IASB to ensure that their views are heard, understood and considered. For the IASB, it is equally important that this is thought through carefully. *Grass root* input from the various countries and regions where IFRS are being used in our view will remain crucial for the quality of the standards and the ongoing acceptance of IFRS.

The importance of cooperation and coordination between national standard setters and the IASB is acknowledged in the Memorandum of Understanding (MoU) that the IASB agreed with national standard setters back in 2005. Many of the issues addressed in that MoU only gain in importance as the adoption of IFRS grows. We would encourage the IASB, national standard setters and EFRAG to review that MoU on a regular basis in order to reflect new developments and evolving insights, for example, with respect to the way in which organisations such as EFRAG can form partnerships with the IASB to research and develop emerging projects.

On the new EFRAG structure itself, we have the following specific observations:

- We believe that the structure as proposed is quite complex, because of the multiple layers of governance bodies that are foreseen in a restructured EFRAG (general assembly; supervisory board; planning and resource committee; TEG). This raises some questions about who is ultimately responsible for what. We accept, however, that these proposals reflect the art of the possible, rather than necessarily an optimal solution, and that the proposals have met with the agreement of all parties involved in the discussions. In particular the prospect of a significant increase in funding from the European Commission and from the national funding mechanisms following this restructuring is important for the future of the EFRAG organisation.

- We agree with the proposed changes that aim at making EFRAG more publicly accountable. EFRAG should be, and be seen, as an independent, high quality accounting research organisation that canvasses and articulates the views of all European financial reporting stakeholders. Consequently, we agree with the proposed changes to the supervisory board membership requirements, which envisage that supervisory board members will act in a personal capacity rather than as representatives from founding European organisations. However, it is not clear how the requirements that the general assembly members are only those who provide funding to the organisation ties in with the change in supervisory board membership requirement. The general assembly has the power to appoint SB members. If the general assembly consists solely of organisations providing funding to EFRAG, the independence of supervisory board members may still be questioned.

- We note that section 4.1 states that one of the roles of the general assembly is to approve EFRAG's budget. In section 6.3 it further explained that from 2010 onwards, the European Commission has indicated its willingness to provide up to 50% of an increasing EFRAG budget. It is not clear how the EC funding and the general assembly approval of the budget tie in with each other. We would assume that some level of EC approval of the budget would be required, in which case the description of approval of budgets by the GA may need to be reconsidered.

- A restructured EFRAG will lead to search for several new candidates for its various governance bodies, including the PRC, the supervisory board and consultative group. We believe that calls for candidates for the various positions should be made publicly, inviting any suitable candidates to put forward their names for consideration.

Should you wish to discuss any of the points raised, please contact Mark Vaessen at +44 207 694 8589.

Yours sincerely,

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