

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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Dear Sir David

The IASB's work programme and the IASB/FASB Memorandum of Understanding

We have noted that in recent months that 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, and some tentative decisions were taken. Further papers based on that earlier paper and discussion were discussed at your June Board meeting and, in the light of those discussions, a revised quarterly Technical Plan has been issued.

These discussions will clearly 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 very interested 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 discussed. Those views are set out in the numbered paragraphs that follow.

Getting IFRS ready for the US and other countries transitioning to IFRS

- 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 the IASB has done over the years to move accounting in the direction of that goal. We recognise and accept that, if progress is to continue to be made, a proportion of the IASB's resources need to be allocated to projects that make IFRS more attractive to jurisdictions that are not currently using IFRS.
- 2 Furthermore, we broadly support the IASB's decision to base its planning on the assumption that it needs to have made the main changes necessary by 2011. Stability is an essential element of any high-quality financial reporting system, and we agree that the IASB should try to provide a two year stable platform for those countries moving to IFRS in 2013.
- 3 It appears that the basic approach the IASB has adopted in its discussions is to view IFRS from the perspective of those countries moving to IFRS in order to identify 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. To that list of projects has been added any other improvements to IFRS that are seen

as essential because of the seriousness of the existing weaknesses in IFRS. We broadly support this approach.

The credit crunch

- 4 There is of course another factor that is playing an important role in determining the IASB's work programme and priorities: the so-called 'credit crunch' and resulting market turmoil. As a result of this market turmoil, the IASB is carrying out work to identify any weaknesses in IFRS that have the potential to create, aggravate or obscure from view problems that exist. We recognise and accept that this will involve the IASB carrying out a lot of work over a very short space of time and that this work has to be given a high priority.

A question of balance

- 5 The key issue for jurisdictions like Europe in these circumstances is whether an appropriate balance has been achieved between the interests of those jurisdictions using IFRS and those that are currently not using IFRS. There are several aspects of the work programme 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, we were pleased to hear Board members and senior IASB staff say that the Insurance project will continue to be viewed as a high priority. It would be a serious concern were the project to be given a lower priority than at present, even if that was done in order to complete the MoU projects on time. Jurisdictions already on IFRS need 'their standard-setter' to allocate a proportion of its resources to carrying out work designed to address weaknesses in IFRS as it applies to them.
- (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 suggestion 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 happening. 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 that 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 would be very concerned were the IASB to 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. Furthermore, bearing in mind that any changes that the IASB makes would affect all jurisdictions on IFRS—not just those moving to IFRS in the next few years—it is essential that the IASB takes the time to consider the issues fully and to deal with them properly.

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

Cross cutting issues

- 6 We have argued on several occasions recently that the IASB should allocate resource to addressing cross-cutting issues. We understand that it has been suggested that, whilst a good idea in theory, such an approach 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).
- 7 In our view a good illustration of the approach to cross-cutting issues that we advocate is provided by the high priority that the IASB has given to date to the Framework project; the Framework is, after all, only a collection of solutions to the most common high-level cross-cutting issues. We strongly support the emphasis that the IASB has given to the Framework project over the last few years and would be concerned were its important to be downgraded in the future. In our view, fundamental issues about measurement, the difference between equity and liabilities, and aspects of the revenue recognition debate can only be solved by getting the concepts right first.

Other comments

- 8 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.

- 9 We note that it has been suggested 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.
- 10 It is clear from the revised Technical Plan that the IASB will need to issue consultative papers and final documents at an almost unprecedented rate over the next few years. This will undoubtedly place a strain on the IASB's constituents. We would encourage the IASB to do all that it can to help constituents cope with that burden. Advance warning about publication dates and careful selection of comment deadlines and effective dates will all help ease that burden.

The need to consult over agenda decisions and prioritisations

- 11 The IASB is probably one of the most transparent organisations in the world and its due processes are very good. However, one area in which its processes 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