The Hundred Group
of Finance Directors

Financial Reporting Committee

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International Accounting Standards Board
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CL 37
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Dear Mr McGregor

Role of Accounting Standard Setters and their Relationships with the IASB

I am pleased to submit the 100 Group's comments on the draft Memorandum of Understanding that was published by the IASB in February 2005.

We appreciate that the IASB is in a difficult position. It is an international body that has no power to require the use of its accounting standards or to enforce compliance with them. It is wholly dependent for its influence on the widely-held desire to move towards a single global accounting language that is encouraging national and supra-national governments to require the use of IFRS. It is therefore important that the accounting standards that the IASB produces result in high quality, transparent and comparable information that, above all, is relevant to the needs of users of financial statements. Otherwise, the momentum towards international accounting convergence may be lost.

As preparers, we are concerned that the financial information that we are required to present externally to comply with IFRS is increasingly divergent from the financial information that we use internally to manage our businesses. We believe that this demonstrates that the IASB's accounting model does not reflect commercial reality. Such an accounting model is fundamentally flawed and is highly unlikely to meet the needs of users in making economic decisions. If the IASB continues on its current path, there is the real danger that results reported under international accounting standards will come to be regarded as irrelevant by the financial community. If this is to be avoided, it is imperative that the IASB consults more effectively with the users of financial statements and demonstrates that, where appropriate, it has taken into account their views.

We recognise that with some 100 countries expected to adopt IFRS to some extent over the next few years, the IASB cannot hope to have sufficient resources to deal directly with individual commentators and interest groups in each of these countries. It must, therefore, rely heavily on existing regulatory and accounting standard-setting structures to manage and focus the views of its international constituents.

Against this background, we broadly support the draft Memorandum of Understanding. Our specific observations on the document are set out below.

Working with regulators

We are concerned that there appears to be a presumption that countries will opt for full convergence with IFRS. We suggest that it is made clear that the IASB acknowledges that certain jurisdictions may require IFRS to be used only by certain entities, for example, listed companies.

We agree, however, that, to the extent that it has been decided locally that IFRS should apply, it should be the national accounting standard setters, not the IASB, that should have responsibility for identifying and dealing with domestic regulatory barriers to adopting or converging with IFRS.

Communication

We agree that, without limiting the direct communication of ideas to the IASB, national accounting standard-setters have an important role in communicating the views and ideas of their constituents to the IASB through the consultation process. As a representative body, the Hundred Group of Finance Directors would welcome the opportunity to contribute to this process through the UK Accounting Standards Board.

We agree that there should be communication between national accounting standard-setters where there is an issue of common interest and that they should be encouraged to develop proposals for consideration by the IASB or IFRIC.

We support the creation of a database of issues raised with the IASB but, in the interests of transparency, we believe that it should be publicly available and not only accessible by national accounting standard-setters.

Application of standards

We believe that it is neither realistic nor desirable to expect national accounting standard-setters to commit themselves, as a matter of policy, to converging with all IFRS.

While we support the principle that national accounting standard-setters should not amend IFRS in a way that would cause non-compliance of locally-adopted IFRS with IFRS adopted by the IASB, we believe that there should be latitude for divergence where this is essential or justifiable in the context, for example, of local legal requirements. Otherwise, we agree that amendments to IFRS should be limited to the removal of optional treatments or requiring additional disclosure that is considered necessary in the local environment.

Whatever the circumstances, we would expect local amendments to IFRS adopted by the IASB to be rare. We do not support the making of widespread amendments that would lead to the development of "locally amended IFRS".

Although local amendments to IFRS must be strictly limited, we believe that it may be appropriate for national accounting standard-setters to permit smaller companies to apply certain of the measurement principles contained within IFRS in a simplified way and exempt them from certain of the disclosure requirements specified by IFRS.

Interpretation

We support the IASB's view that interpretations of IFRS on matters of international relevance should be issued only by IFRIC. We agree that national accounting standard-setters should issue interpretations of IFRS where an issue affects only one or two jurisdictions and relates to particular legislative or other local requirements.

It is widely expected that IFRIC will be bombarded with requests for interpretations of IFRS. We urge IFRIC to exercise restraint in responding to such requests. We contend that the development of a large body of interpretations would not be consistent with the principles-based accounting framework promulgated by the IASB. We believe that, as in the past, the body of GAAP should be given time to develop and, as preparers, we acknowledge our own role in that process.

We recognise though that there is the possibility of a backlog of issues submitted for consideration by IFRIC. We are aware that the UK Accounting Standards Board has suggested that where guidance appears unlikely to be available from IFRIC on a timely basis, it should publish its own interim interpretations. We think it likely that others will make similar proposals, e.g. for a pan-European interpretative body. Such intervention would not assist international accounting convergence and we believe it should be actively discouraged by the IASB.

We believe that it is the IASB's responsibility to ensure that IFRIC has sufficient resources available to it to provide those interpretations that are necessary on a timely basis. We suggest that any immediate resource constraint could be overcome by involving staff from national accounting standard-setters who would otherwise be preparing their own interpretations. If this is not possible, the IASB should consider temporarily diverting its resources away from the longer-term development of IFRS and towards resolving the difficulties of implementing existing accounting standards.

In short, if an issue of international significance requires interpretation, IFRIC, and only IFRIC, should address it.

Role of FASB

We are curious as to the role of the FASB. It is only mentioned once in the document under the heading "Project role", where it clearly has a status that differs from other national accounting standard-setters. While this is understandable given the importance of the US to the global convergence project, we believe that the document should address the special relationship with the FASB.

Working with users

We believe that the document should outline the specific ways in which the IASB will, directly or indirectly, address the needs of perhaps its most important constituents – the users of financial statements.

As preparers, our contact with members of the investment community suggests that many do not believe that the financial information that we are required to produce in accordance with IFRS is relevant to their needs. In our experience, the financial information that is required by users to make economic decisions is likely to be based on the financial information used internally by preparers to manage their businesses rather than on the fair value accounting model that is favoured by the IASB. We believe that this indicates that the IASB's consultation with users has, to date, been ineffective and that the IASB should make a renewed effort to ensure that the needs of users are addressed in its accounting standards.

We believe that national accounting standard-setters have an important role to play in seeking out the views of users and communicating them to the IASB.

If the IASB were to lose the confidence of users, the success of the entire convergence project would be put in jeopardy.

Please feel free to contact me if you wish to discuss our comments.

Yours sincerely

Ken Lever
Chairman, 100 Group - Financial Reporting Committee

cc Ian Mackintosh Esq, UK Accounting Standards Board