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Le Président

Paris, 29th July 2005

Warren McGregor
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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AB/PS/CS

CL 35

N° 474

Dear Warren,

IASB draft 'Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB'

On behalf of the Conseil National de la Comptabilité (CNC) I am writing to comment as follows on the IASB draft *Memorandum of Understanding (MoU) on the role of (National) Accounting Standard-Setters (NSS) and their relationships with the IASB*:

In view of the fact that many of our views are convergent with those expressed by the EFRAG, we have structured our comments accordingly in two parts:

- points of disagreement with the EFRAG
- points of agreement with the EFRAG

Points of disagreement with the EFRAG

1. We note that the draft MoU does not address the position of the Japanese and US NSS; in other words, the NSS that are converging towards IFRS but have neither converged (or adopted) IFRS nor agreed to converge (or adopt) IFRS. We see no reason why the MoU should not address in an extensive way the various relationships that might be involved between the IASB and NSSs, and explain the reasons why differences arise.
2. Section 7 discusses the role of the NSS in the interpretation process. We consider that there is a need for interpretation that the IFRIC cannot fulfil. IFRSs should remain principle based. It is therefore not the place for IFRIC to develop a whole set of interpretations on the various day to day issues that companies and auditors face. Implementation guidance is currently given by audit firms to their clients and should be co-ordinated at national level by the NSS. The issues to be addressed would not be limited to those specific to the legislation of the jurisdiction but would also encompass subjects

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not dealt with by the IFRIC, for example issues not considered important by the IFRIC but which are significant locally. A European NSS's tackling those issues would help build the same kind of common knowledge that there is actually in the United States, and that is referred to in the Exposure Draft of the IFRIC process. The issues data base would be useful to enable the development of common solutions which should be adopted whenever possible.

Points of agreement with the EFRAG

1.Paragraphs 1.3(a), (b) and (c) of the draft MoU were taken from paragraph 2 of the IASB's constitution. That paragraph has been amended, by the inclusion of a subparagraph about SMEs, and we suggest that paragraph 1.3 is updated to reflect that change.

2.Paragraph 3.7 suggests that a database should be maintained of issues reported to the IASB by standard-setters and others. We think that this database could be very useful. However, as much could depend on the detail we suggest that, if the IASB decides to proceed with this proposal, it should consult specifically on a more fully developed, detailed proposal.

3.Paragraph 3.20 states that “accounting standard-setters should be a key channel for information flowing to the IASB from government agencies, politicians and others who are engaged in non-technical debate.” However, it is not within the power of the NSS or the IASB to determine how and to whom government agencies, politicians and others communicate. Furthermore, paragraphs 3.19 and 3.20 together seem to imply that, whilst the IASB should be directly involved in the technical debate, it should be ‘protected’ somewhat from the non-technical debate. We do not think it is appropriate to distinguish between the technical and non-technical debate in this way; they are both debates that affect global standards, so the IASB should be involved in both.

4.In places the draft MoU seems a bit one-sided in ‘favour’ of the IASB. Section 3, for example, explains at some length the communication ‘obligations’ of the NSS, but says very little about the IASB’s communications obligations. Similarly, the first sentence of paragraph 4.1 makes it clear that, in a joint project, it is important that the IASB does not lose its independence, but omits to mention that it is just as important in such circumstances that the NSS also does not lose its independence.

5.Although the draft MoU has a lot on the relationships between the staff of the IASB and of the NSS (for example, paragraph 4.7), it says nothing about Board-to-Board relationships. Board-to-Board discussions can be very useful—for both sides—and we think the IASB should be looking for more opportunities to hold such discussions. We think this should be reflected in the MoU. In a similar vein, we note that the draft MoU has nothing significant to say about the world standard setters meetings and the liaison standard-setters meetings. We also note that little reference is made to the liaison standard-setters. We think the MoU would be a better document if all these omissions were to be addressed.

6.According to section 4, if an NSS is involved in a research project, it would not necessarily be involved when the issue moves onto the IASB’s active agenda; and if NSS staff is involved in an active agenda item’s project team, they are treated as if seconded to the IASB and FASB. We think this discussion would be improved by a clearer explanation of the incentives for an NSS to provide resource to the IASB.

7. Section 8 of the draft MoU discusses the educational activities of the IASCF. In our view, neither the IASB nor the IASCF should carry out any educational activities. Such activities are bound to give rise to material that will be viewed by some as informal guidance, thus resulting in a further layer of GAAP, which should be avoided wherever possible.

Kind regards

Antoine BRACCHI