



Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaçào Internacional das Comissões de Valore

1 August 2005

Mr. Thomas Seidenstein
Director of Operations
IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Tom:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (the Committee or SC1) appreciates the opportunity to provide our comments with regard to the International Accounting Standards Committee Foundation's paper – *Due Process of IASB: Draft Handbook of Consultative Arrangements – April 2005 (the Handbook)*.

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement.¹ Members of SC1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of SC1 and are not intended to include all the comments that might be provided by individual members on behalf of their respective jurisdictions.

IOSCO supports the work of the International Accounting Standards Board (IASB) in its efforts to develop International Financial Reporting Standards (IFRS) as a high-quality set of accounting and financial reporting standards that can be applied globally. IASB's due process is crucial to this development of such standards and therefore, we commend the Trustees and the IASB for drafting and releasing this Draft Handbook for public comment. We believe that such a handbook will promote the IASB as a credible, authoritative standard setter by establishing a set of procedures for consultative arrangements with constituents and thus advancing the broad acceptance and application of the standards.

As noted in our earlier letter dated 22 June 2004, we are pleased to see that many of our concerns and recommendations, as expressed in our response to the IASCF's constitutional review, were addressed in the IASB's consultative paper issued in March 2004 and are now included in this Draft Handbook.

¹ See IOSCO website, www.iosco.org

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Transparency and Accessibility

Board Meetings

We commend the Board for making its meetings more open and easily accessible to those interested in observing the deliberation of issues by expanding the information provided in the observers' notes. As users of these notes, we have found the additional background information, illustrative examples, presentations, and staff recommendations very helpful in enabling us to follow the discussions and to understand better the decisions reached by the Board. Also, the use of both live and archived Web broadcasts is another important improvement that has made the Board's meetings more accessible for those stakeholders unable to observe the meetings in person.

Comment Letters

Previously, the IASB indicated in its consultative paper issued in March 2004 that it would begin to post comment letters on a weekly basis during the comment period for the exposure draft or discussion paper giving constituents the ability to read the letters in advance of the Board's discussion of the issues and comments received, and the resulting decisions. This new policy was to be effective beginning with the exposure draft ED6 *Exploration for and Evaluation of Mineral Resources*.

However, based on our experience in trying to retrieve comments, we noticed that comment letters were not accessible until after the comment period has ended. For example, a recent IASB news update (dated 6 June 2005), stated that comment letters are now available for the ED amending IFRS 6, which had a comment period that ended on 3 June 2005. We believe that the Board should provide the comment letters in a timelier manner similar to the proposal indicated in the IASB's March 2004 consultative paper.

Early Communication of Decisions Reached During Re-deliberation

Comment letters from constituents serve as one way for the Board to receive valuable and necessary input on its proposals and other decisions affecting IFRS. Also important is that constituents understand how their comments were considered in the Board's discussions and in arriving at technical decisions. Such understanding will promote greater acceptance of the Board's decisions and possibly enhance the overall application of IFRS.

To this end, we continue to support the Board's earlier decision² and strongly encourage it to provide a two-column analysis for each open exposure draft. This analysis, as noted in its March 2004 consultative paper, would show the text in the exposure draft and subsequent amendments to this text based on the Board's decisions. As part of this analysis, we believe it would also be useful to have explanations of how constituents' concerns were considered by the Board in reaching its decisions. Such analysis would especially be helpful in understanding those exposure drafts that are lengthy and complex, involving several and/or interrelated to one another. For example, the recently issued exposures drafts amending IFRS 3 *Business Combinations*, IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and IAS 19 *Employee Benefits*.

Near Final Drafts of Exposure Drafts and Standards

In addition to providing the summary of major points about the draft standard, the Board indicated that it would post on its Website, starting after 31 March 2004, near-final drafts of forthcoming exposure drafts (ED) and standards, as well as utilize the advisory groups to identify "fatal flaw" or drafting issues. Therefore, it is unclear to us, why the recently issued exposure drafts for amending IFRS 3, IAS 27, IAS 37 and IAS 19 were not made available to certain advisory groups, including the International Financial Reporting Interpretations Committee (IFRIC). For previous drafts, the IFRIC had been provided near-final drafts for review and comment to identify fatal flaws.

Extensive Consultation and Responsiveness

We commend the Board in its formation of several advisory groups, including the Financial Instruments Working Group, Insurance Working Group and the joint effort with the FASB on the Joint International Group on Performance Reporting. Members of the SC1 are actively participating in these groups as IOSCO observers, and therefore, have witnessed first-hand the benefits of consulting a wide range of interested parties to discuss and debate issues, and to provide advice on how to resolve those issues. Like other steps in the due process, having such groups enhances the development of standards that are understandable and operational, as well as advancing the broad acceptance and application of the standards.

Accountability

We agree with the Board's discussion to adopt the "comply or explain" approach in communicating the reasons why it decided not to perform non-mandatory steps of its consultative process. The due process

² In the Board's consultative paper issued in March 2004, it recognized that interested parties might find it difficult to follow the cumulative effect of those decisions and that it would take several steps to address these concerns. One step, which the Board said it would attempt to do, included providing a two-column format, which shows the text of the exposure draft in one column and any subsequent amendments to this text in the other column.

steps, such as forming advisory groups, conducting public hearings, and issuing discussion papers, provide stakeholders with the chance to give valuable insight and information to the Board and its staff before an exposure draft is published.

We commend the Trustees for forming a Procedures Committee to oversee the IASB's operations and for indicating the oversight duties of this Committee in the Draft Handbook. As noted in IOSCO's letter to the Trustees dated 9 February 2004, transparent and participative due process is an essential ingredient in the development of IFRS. Therefore, we believe that this Committee will play an important role in ensuring a transparent and effective due process, which is necessary for a credible authoritative standard setter. Also, as noted in the letter – *In their oversight role, the Trustees should evaluate whether the Board has access to adequate resources to effectively achieve its current and proposed work plan.* We believe that this Committee will contribute further to enhancing the Trustees' oversight role of the IASB.

Stage 1: Setting the Agenda

Cost/Benefit Analysis

A standard setting process should include an evaluation of whether the benefits of a new standard will outweigh the costs of developing, implementing, and enforcing that standard. Paragraph 57 of the Draft Handbook provides further elaboration of item *d) quality of the standard to be developed*, which indicates that the Board considers the qualitative aspects of the standards that are proposed to be developed and takes into accounts factors such as, "whether it is likely that the expected benefits to users of the improved financial reporting will exceed the costs of implementation."

We believe that the IASB does indeed consider these issues in selecting its projects and throughout the course of those projects. However, this consideration is neither formal nor transparent to many stakeholders. Although quantifying the costs and, especially, the benefits of new accounting standards can be difficult, we believe that improvement in communication of the Board's consideration of cost-benefit issues would be helpful. Therefore, we recommend that the Board consider having a separate item just for cost/benefit analysis, i.e., moving it from under item *d)* and creating an item *f)* which relates to cost/benefit analysis.

Communication of the Board's Decisions

Currently, the basis, for which the Board determines to accept or reject an issue for its active agenda, is not often clear to stakeholders. Therefore, we suggest that the IASB Update provide more explanation, which is in line with the criteria and factors outlined in the Draft Handbook, stating the reasons why an item was rejected, or removed from the Board's active agenda.

One area not addressed in the Draft Handbook is the "new dawn review" and/or "sunset review" of projects and the role that advisory groups will play in this review. Because the IASB has limited resources, it is important to periodically review the projects on the Board's active agenda to determine whether projects should be continued, modified, or terminated. Therefore, we believe that conducting such reviews should be noted in the [final] Handbook a requirement to perform review of projects which are

long-term or more than eighteen months in duration. In addition, we believe the results of the reviews should be documented in the IASB Update and/or project status reports, which are publicly available to interested parties.

Stage 2: Project planning

We do not fully understand the reasons for the approach to manage the relationship between Board members and IASB staff as stated in paragraph 65 as follows:

In developing staff recommendations, to preserve the quality of staff proposals, project teams are expected not to seek to favour the views of individual Board members, and individual Board members are required not to try to influence project teams' conclusions outside of the Board's public meetings.

We acknowledge the need to have all Board decisions made in the public domain and therefore, agree that some measures are needed to ensure that all reasonable possibilities for handling a matter are considered by the full Board. To that end, we believe also that there needs to be a healthy exchange of ideas and direction between the Board members and IASB staff. In the IOSCO letter to the Trustees dated 9 February 2004, the Technical Committee noted the following:

The projects the Board is addressing are complicated, and we believe that the issues can best be addressed in an atmosphere that encourages discussion amongst Board members and between Board members and staff. In addition, as the Board is responsible for the standards, it is important that Board members provide appropriate direction to staff as they analyze the issues and draft portions of standards. We observe that such direction and discussions are best facilitated if Board members are in the IASB offices. While we understand that the Board members' responsibilities for liaison work and other activities may often require them to be outside the office, we believe that the Trustees should consider whether the proper balance of time spent in the office versus at offsite meetings or working from remote locations has been achieved.

We suggest that additional wording be added to paragraph 65, describing what the appropriate working relationship between Board members and IASB staff would be.

Website Project Updates

Currently, updates for the IASB's projects are not consistently updated to reflect Board decisions, and other actions steps that will be done for that project on a timely basis. Some project updates are current while others are not. For example, the update posted to the IASB website for revenue recognition has not been updated since 1 March 2003. The Board has had several meetings and made many decisions regarding this project since March 2003. We consider project updates (if current) to be very useful tools for tracking the progress of a project and to keep abreast of Board decisions affecting an exposure draft and/or final standard. Therefore, we recommend strongly that these updates be maintained consistently on a current basis.

Comment Period

In paragraph 98, it states that the Board normally allows a period of 90 days for comment on its consultation documents and for exposure drafts, generally 60–120 days depending on the project. However, for exposure drafts, the Board may allow less time (but not less than 30 days) if a matter is urgent, the document is short, and the Board believes that there is likely to be a broad consensus on the topic. As a group representing multi-lingual individuals, some of whose first language is not English, we would like to highlight the need to consider the time necessary to translate documents into other languages from English in determining the length of the comment period.

In reaction to a recent Board decision to rescind IFRIC 3 *Emission Rights*, it is not clear to us how the IASB's due process works, with regard to gathering public input for rescinding an interpretation and/or standard. Would these decisions have similar "comment period" procedures as amending or drafting standards and/or interpretations? We suggest that the Handbook address the process for rescinding a standard or interpretation if it is different.

Field Visits and Field Tests

We believe that field visits and field tests are important steps in standard setting due process. As indicated in the Draft Handbook, field visits enable the Board and its staff to gain a better understanding of industry practices and how proposed standards could affect them. These field visits include companies or other parties affected by the proposals. While field tests normally require collaboration with interested companies that are willing to be involved in testing the proposed standard, possibly over an extended period of time, and then gathering and evaluating data, which are later communicated in a report.

Paragraph 102 states that costs to conduct field tests are high – both financially and staff time - and therefore, the Board will not conduct field tests frequently as part of its due process. While we acknowledge that the costs to conduct field tests can be significant, we question the logic of stating that they will only be performed in rare circumstances, especially in light of the current agenda projects (e.g., revenue recognition, performance reporting, insurance contracts, and extractive activities) seem to possess characteristics which might cause the Board to include field tests in its process. For example, these projects all seem likely to involve proposed principles which are significantly different than those currently used with regard to measurement and recognition.

Closing Remarks

We acknowledge that many of the enhancements identified, and currently being implemented, have incremental costs associated with them. Some of the enhancements, such as the working groups, public hearings and web-based broadcasts, require significant resources to implement. However, in the long term, we believe such costs are worthwhile and will produce benefits that far exceed the additional costs.

IOSCO Standing Committee No. 1

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Consultative Arrangements – April 2005*

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We appreciate the opportunity to comment on the draft interpretation. If you have any questions, please do not hesitate to contact me at 202-942-4400.

Sincerely,

A handwritten signature in black ink that reads "Scott A. Taub" followed by a stylized flourish or initials.

Scott A. Taub

Chair

IOSCO Standing Committee No. 1