



10 February 2011

Our ref: ICAEW Rep 19/11

Your ref:

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Chère Mme Flores

1. ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
2. ICAEW welcomes the opportunity to comment on the draft EFRAG comment letter to the IFRS Foundation on the *Status Of Trustees' Strategy Review* published by the IFRS Foundation in November 2010. We agree with many of the comments made in the EFRAG letter, and have focused below on a small number of serious concerns.

### Objectives

3. We do not agree with the comment in paragraph 1 of the Appendix that 'where solutions are available that are acceptable to both regulators and shareholders they should be adopted in preference to solutions acceptable only to shareholders'. This does not appear consistent with paragraph 2 (which we support) and indeed sounds like a search for a lowest common denominator. The clear focus of the IASB must be on high quality and transparent financial reporting for capital providers; whilst the IASB should seek to understand the concerns of regulators, and might naturally opt for a solution that was acceptable to regulators if two solutions were equally appropriate from the perspective of investors, we do not believe in practice that the issue is likely to be so straightforward. We suggest that paragraph 1 is amended accordingly.

## Due process

4. Regular and inclusive due process with constituents is a hallmark of an effective and credible standard setting process. We believe that an ongoing process of review and improvement is necessary to ensure that IASB due process is the embodiment of best practice in global standard setting and accordingly welcome the recent, significant improvements in due process arrangements and procedures. The IASB is acknowledged to be very transparent in its due process and operations. We are therefore not convinced by the point raised in paragraph 16 of the Appendix, that 'there is very widespread concern about how due process is operating in practice'. This is a serious allegation, and EFRAG should be specific as to the evidence they have to support it. For example, concerns have been expressed about the IASB's past failure to consult on its approach to convergence with US GAAP (although we hope that regular public consultations on the IASB's agenda will address this type of issue in future). Whether it is this or other criticisms to which EFRAG is referring, that should be made clear by being as specific as possible.
5. We would modify the comments in paragraph 18 regarding the suggestion that the IASB generally select the solution that is most popular. The clear focus of the IASB should be the intellectual rigour and conceptual clarity of alternative accounting solutions. However, in determining the most appropriate of acceptable technical solutions, practicality should be a prime consideration. Practicality should be the focus of a carefully-defined and pervasive process in which cost/benefit considerations are assessed routinely within the context of the fundamental objective of providing transparent financial information that reflects economic reality and has been shown to be of value to market participants. The popularity of alternative high quality proposals may be a proxy for practicality, or it may not. Many commentators on proposed accounting standards may, for example, be motivated by other factors, such as tax outcomes or the risks to commercial opportunities that transparent information may (in their view) curtail. Accounting standard should not be passed simply by the number of votes in favour or against.
6. Finally, we question the tenor of paragraph 19 (the use of options as a 'mechanism' for achieving a desired outcome) and are unsure what a 'comprehensive' process for decisions about re-exposure of proposals might entail. EFRAG may like to reconsider these two paragraphs, to be more specific and add examples of the problems that they wish to see addressed.

## Bringing improvements at the right time

7. 'Whenever the IASB encounters strong or extensive objections ... we believe that the IASB should be prevented from going ahead. This type of significant objection ... should also be seriously considered when a whole region shows opposition'.

We have serious concerns regarding the suggestion (in paragraph 25) that IASB proposals should be constitutionally blocked where the IASB encounters strong or extensive objections. It is entirely appropriate that practicality and impact is duly considered by the IASB, but ultimately decisions about accounting standards need to be taken by an independent standard setter in the public interest after following transparent due process. Practicality considerations might affect the choice of accounting solution, or the timing of implementation, but the sort of veto apparently envisaged is very likely to damage the credibility of IFRS and undermine the confidence of investors in the growing number of capital markets around the world that require use of IFRS. Past experience suggests that, with hindsight, unpopular changes to standards (where these have significantly increased transparency of financial statements) have produced rational economic behaviours by companies that have been hugely beneficial to shareholders. For these reasons we strongly recommend that paragraph 25 be deleted.

## Impact assessments

We agree that impact assessments, and field testing in particular, can assist with the development of robust and operational accounting standards. However, we believe that there are severe challenges to undertaking 'effects studies' effectively on a global basis. We welcome the current efforts of EFRAG to explore this issue in more detail and look forward to contributing to the debate.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

A handwritten signature in black ink, appearing to read "J. Boulton". The signature is fluid and cursive, with a long horizontal stroke at the end.

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