

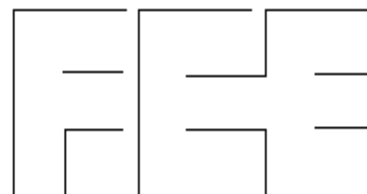
Date  
1 March 2005

Le Président

Fédération  
des Experts  
Comptables  
Européens  
AISBL

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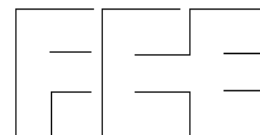
Mr Tom Seidenstein  
Director of Operations  
IASC Foundation  
30 Cannon Street  
GB-LONDON EC4M 6XH



Dear Mr Seidenstein,

Re: IASC Foundation Constitution Review

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its comments on the IASCF consultation paper on the Review of the Constitution of November 2004. We appreciate the transparent process of this first periodic review including the interim publication of results and the public hearings. Even if the review is based on the ten main issues identified, we wish to make some additional remarks.
2. Since assuming responsibility from the IASC 2001, the IASB has launched an extensive work programme which has been accelerated under pressure of the "2005" deadline in order to deliver a comprehensive set of high quality global standards. It is a great achievement that the IASB has completed a stable platform of a comprehensive set of international standards against the backdrop of the many demanding issues that needed and need to be resolved.
3. FEE is a long known supporter of global principles-based standards, since only global standards will meet the wider objectives of financial stability, efficiency and transparency and provide the benefits of increasing confidence in financial markets and of facilitating global investments, thereby reducing the cost of capital. In June 2004 FEE published its paper "Call for Global Standards: IFRS".
4. We recognise that IASB's status as a privately established body remains crucial for its independence and technical integrity as a standard setter. However, it is important to address the accountability of private international organisations such as the IASB and IASCF in order to meet requirements and expectations in various jurisdictions around the world. An enhanced consultation process and compliance with appropriate due process are essential cornerstones given the public interest role the IASB has to play.
5. The adoption of the IAS Regulation, which makes IFRS obligatory for use in the 2005 consolidated accounts of listed companies in the European Union, has increased the significance of IFRS for Europe. The fact that, in Europe, international accounting standards become part of legislation through an endorsement mechanism expressly adds a political dimension to the process. This requires that higher importance is given to accountability of the IASB notably focusing on appropriate democratic oversight and improved transparency. Moreover it makes Europe an important, if not the most important, user of IFRS worldwide for the time being.

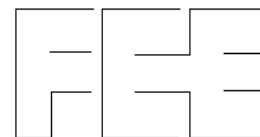


6. The take up of IFRS in Europe is significant for the take up of IFRS in the rest of the world. It is therefore of crucial importance that Europe is sufficiently involved, heard and understood in the standard setting process at global level. Europe, notably through EFRAG – of which FEE is one of the founding fathers – has organised itself in such way that a valuable contribution can be made. However this requires more than recognition of EFRAG as a liaison relationship. EFRAG should be more closely involved in the work of IASB, (elements of which could include observer membership of IFRIC and formal membership of SAC, involvement in the work of the IASB itself and direct involvement in the convergence process). A debate is needed on how such further direct involvement of EFRAG in the work of the IASB could be organised and formalised both within Europe and within the IASCF, whilst avoiding any apparent conflict of interest between the proactive work of EFRAG in contributing to the standard setting and the subsequent endorsement advice on standards. We can imagine that much the same issue arises for the individual boards of the IASB and the FASB when voting separately on joint convergence recommendations.
7. In order to improve the accountability of the IASB, addressing the following issues is believed to be critical:
  - Appointment of Trustees and related process
  - Transparency around the contents and prioritisation of the agenda combined with a proper due process
  - Appointment of IASB members and related process
  - Funding (funding needs to be clear and independent)
  - Public accountability and oversight
  - Role of EFRAG

We set out below our general comments, followed by our comments on the 10 main issues identified in the IASCF consultation paper.

### Convergence

8. We note that the IASB has reached an agreement on convergence with the FASB, known as the “Norwalk Agreement”, aimed at eliminating as soon as possible the main differences in reconciling items between IFRS and US GAAP. Another agreement with the Accounting Standards Board of Japan (ASBJ) provides for discussions to identify differences between Japanese standards and IFRS. FEE supports the principle of seeking convergence. Obviously, convergence should lead only to the highest quality accounting solutions. This necessitates the careful selection of the best elements of IFRS, US, Japanese GAAP and other national GAAP and publication in discussion papers of comparative analysis of the merits of the existing alternative accounting solutions around the world to facilitate assessment of IASB proposals. We perceive a need to balance the transatlantic dimension in the discussions between the IASB and the FASB.
9. Bringing about convergence of national accounting standards and IFRS to high quality solutions is enshrined in the objectives of the IASCF. The “Norwalk Agreement” and agreement with the ASBJ constitute fundamental decisions of convergence with particular standard setters and would have merited an appropriate due process and consultation, which includes setting the conditions for convergence. The Norwalk Agreement affects the work programme and prioritisation of the agenda. The Constitution should address the due process for such fundamental decisions in the light of full transparency.



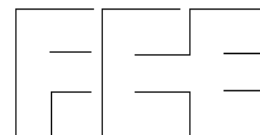
10. We recommend that the Constitution should require convergence agreements with key countries to be reviewed, with public consultation, after a certain period of time including a study of implications for the quality of standards and the actual convergence achieved. The convergence debate with the FASB should be operated through a balanced mechanism whereby further consideration needs to be given to a form of European involvement in order to make the terms of the debate more visible and acceptable to European interests.
11. The IASB work programme, its own priorities and convergence priorities should be extensively debated at regular intervals and involve all major parties. The SAC and Trustees should be prepared to enter into a public debate as to which are the most important priorities. Europe, as the most significant user of IAS/ IFRS worldwide, should be involved in all parts of the debate and in the convergence debate; the nature of convergence and the speed of convergence have so far not been openly debated. Such debate, provided it is seen to be effective, can assist in clear understanding and widespread acceptance of the eventual results.

#### Accountability and acceptance

12. The need for independent standard setting in the public interest is paramount. However, we consider accountability to be an essential corollary of an independent standard setting process. In our view one of the most important characteristics of the IASB should be accountability. Recently the Chair of the Committee on Economic and Monetary Affairs of the European Parliament has publicly expressed her concerns about the need to improve “democratic accountability”. She posed the question if the European Parliament “can, and under which conditions, delegate to an external body the elaboration of European standards”.
13. Preparers, users and other stakeholders that are affected by IFRS need to feel part of the standard setting process in the sense that their concerns have demonstrably been carefully considered and where appropriate reflected in the resulting standard or its basis for conclusions. The Trustees should ensure that transparency in respect of the standard setting process and the pace at which new standards are issued are carefully monitored in order to uphold the standing of IFRS.
14. The Trustees need to underline the importance of closing some apparent gaps between IFRS and the Framework by either respecting full compliance with the Framework in the standards or by revising the Framework. This is notably relevant in the fair value discussions and the perceived push by the IASB towards fair value accounting in a wider range of areas which is perceived to be at unease with the Framework. In order to enhance IASB’s accountability and credibility, the IASCF could consider strengthening its public oversight role in terms of public reporting on the assessment of the performance of the IASB and IFRIC especially in meeting the criteria set for due process and consultation, as discussed in more detail later on in this letter.

#### Understandability and practicability

15. IASB should give careful consideration to the understandability and practicability, which includes auditability, of its (proposed) standards. Given the increasing complexity of many business transactions, standards have to reflect this in their contents. Changes to standards are aimed at improving their requirements and normally result in better presentation and improved transparency. Yet a proper balance has to be struck between this goal and the practical application of the standards and the understanding by users of financial information. Respect for the principles-based approach and careful consideration of the speed of change may help to resolve the problem in a changing environment. Trustees have a role to play in setting guidance for criteria to be considered in the cost-benefit debate that should take place on major issues in standards.



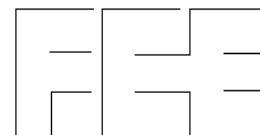
16. The increasing complexity of standards risks creating a situation whereby even specialists in a company are not able to apply the standards comprehensively. This could result in an increased risk of accounting restatements which in itself undermines the credibility of financial reporting. This emphasises the importance that only necessary complexity is included in the standards
17. The cost of learning the standards, keeping up to date knowledge about the standards and proposed standards and application of the standards are increasing dramatically. In addition there are the costs and risks of frequent substantial system changes. Though standards may need to be improved and adapted in a fast changing environment, care should be taken to ensure that preparers and users can have confidence in a certain amount of continuity of current standards. Adequate time should be allowed for the implementation of standards in Europe and elsewhere. More time should be allowed for adequate field testing of new proposed standards and major proposed changes to standards; this would enhance both the practicability and quality of the standards.

Topic 1: Whether the objectives of the IASCF Foundation should expressly refer to the challenges facing SMEs

18. We would have preferred if the text in section 2(a) had been generalised, so that it would also have been made relevant for use by SMEs. We question whether reference to SMEs only in section 2(b) is sufficient since this paragraph only refers to promoting the use and rigorous application of standards. Moreover, it is unclear to us what is meant by “taking account of, as appropriate”. We believe that it is the role of the Trustees to set the policy of having standards suitable for SMEs and to ensure that the IASB gives adequate attention to accounting for SMEs in its work programme. It is then for the IASB to determine whether and to what extent these standards should be different. The Constitution should acknowledge and prioritise accounting for SMEs and set the scope but not prejudice the outcome of the debate.
19. We disagree with the discussion in para 26 that a mentioning in section 2(a) could be interpreted as implying a separate set of accounting standards for SMEs based on different criteria. We therefore are of the opinion that SMEs should be addressed in section 2(a).
20. In addition we do not find it helpful to link the SME issue with emerging economies since they do not have many issues in common apart perhaps from educational issues.

Topic 2: Number of Trustees and their geographical and professional distribution

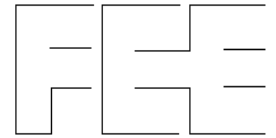
21. We would like to reiterate that the selection process of Trustees and their geographical distribution are more important than the number of Trustees. We welcome the announced improvement in communication and transparency, including establishing procedures for inviting suggestions for appointments.
22. An open and transparent due process of the appointment and re-appointment of Trustees is important. At present, the Trustees appoint new Trustees and may re-appoint themselves. We are of the view that the Trustees should not be self-perpetuating in this way. The Trustees might consider involving a separate independent nomination committee to appoint the Trustees. A parallel might be sought with the proposed IFAC Public Interest Oversight Board where the Monitoring Group consisting out of international regulators and related organisations selects the PIOB, so that a more independent and accountable nominating and appointment process is in place (see also paragraphs 12 to 14). A self-perpetuating process does not readily fit with the European accountability model.



23. We are disappointed that Europe is allocated only six seats. We consider it important that the current and prospective committed users of IFRS (preparers, users and other stakeholders) both in geographical terms and economic weight are properly represented amongst the Trustees. The proposed fixed geographical distribution of Trustees does not correspond to this situation and it would be appropriate to revise it. In this way, the strength of commitment to IFRS could expressly influence the balance of Trustees appointed.
24. We regret that section 7 as the appropriate professional backgrounds for Trustees refers exclusively to the private model, and does not refer to regulatory experience. We consider this also important in relation to the accountability issue (as explained in paragraphs 12 to 14). We are of the opinion that regulatory bodies should be consulted in the nomination and appointment process of Trustees as described in paragraph 22.
25. We understand the change of the role of IFAC in the nomination and appointment process. We are of the opinion however that the maintained reference to two senior partners should also be removed since preparers and users are also only referenced, without referring to specific positions or size of the entities. The sentence should be deleted or reference should be made to background in auditing.

Topic 3: The oversight role of the Trustees

26. We welcome the proposed changes which will strengthen the oversight role of the IASCF. As part of the Trustees oversight role, Trustees should determine whether the IASB has followed appropriate procedures and criteria for establishing its agenda. This would permit the Trustees to ensure that:
  - Appropriate attention is given to accounting for SMEs
  - Appropriate consultation with SAC on prioritisation of the agenda takes place
  - Influence of the convergence agreements on the agenda is widely understood and accepted.
27. We would appreciate the introduction of an obligation for the Trustees to ensure a more active dialogue than at present with the constituency of IASB as part of the public role of the Trustees, in order to be well informed about developments and be open to regular exchange of views with the relevant parties in the public and private sectors.
28. We question the need for adding section 16(j) as we see no role for the IASC Foundation in education. We agree with the concerns expressed in paragraph 66 that there is a risk of creating a further body of interpretations. Also these activities may impair or may be seen to impair the independence of the IASB.
29. Another issue arises with respect to the content of the centralised international educational programmes to be fostered and reviewed. This is the influence of national legal issues on the application of IASB standards in practice. For example, an understanding of contract law in a particular jurisdiction to determine the economic consequences of a particular sales contract is a prerequisite for the appropriate application of IASB standards on revenue recognition in practice. Another example is the need to understand the intricacies of the tax system within a particular jurisdiction to determine the appropriate application of IASB standards on accounting treatment of taxes (especially with respect to deferred taxes). Educational programmes at an international level cannot address these kinds of issues.



Topic 4: Funding of the IASC Foundation

30. We understand the revised text to indicate the continued responsibility for Trustees to arrange for the funding of the IASB. Given the need for the IASB to be independent, the Board members or the IASB staff cannot be involved or seen to be involved in funding. We recognise that funding is an important issue and needs to be solved before finalising the Constitution. Clarity on funding is also important for the accountability debate in relation to the IASB that currently is taking place in Europe.

Topic 5: The composition of the IASB

31. We wish to reiterate that the IASB needs to maintain strong links with practical application of standards. Therefore its members should have practical experience of the use of high quality financial reporting standards from present or recent past involvement, in addition to current and up to date knowledge of financial reporting. Part-time members are likely to be closer to practice and therefore we regret that their maximum number is kept at two. Fresh and up to date experience from relevant industries and practice is needed; this could be achieved by successive rotation of members of the board.

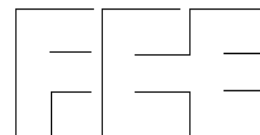
32. Practical experience should not only be limited to listed companies. It needs to be ensured that, within the IASB, there is sufficient experience with accounting for SMEs.

33. The Trustees should be seen to assess the performance of IASB members who are standing for re-appointment. Practical expertise and performance should be important characteristics. The Trustees should apply appropriate criteria to assess the performance of individual Board members. There should be a transparent process for renewal of appointments and renewal of existing appointments as such should not risk being perceived as pre-ordained or automatic. A visible strategy needs to be developed for a permanent search for new candidates. In addition, we find it appropriate for the Trustees to determine the profile for senior IASC staff such as the technical director and the research director.

34. It is important both at Board level, and within the staff, to maintain a proper diversity in professional background and nationality.

35. Both on the Board and in the IASB staff, countries that do and will use IFRS should be well represented so that best use can be made of their experience with IFRS implementation and application in practice.

36. The composition of the Board should also be seen in relation to the convergence projects, since the composition of both boards together involved in a convergence project may give dominant influence to one country, notably the US, since in total there is a majority of board members of both boards together with US background. At the set up of the Board, the convergence agreements did not exist. Notably the Norwalk Agreement has had a major impact on the work of the IASB. We believe that, in the light of the Norwalk Agreement, the balance in membership of the IASB should be reconsidered and other measures considered. The convergence debate needs to be operated through a properly balanced mechanism.



Topic 6: The appropriateness of the IASB's existing formal liaison relationships

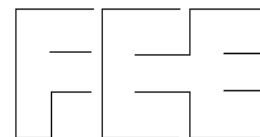
37. We appreciate the widened wording of section 23 which now refers to other official bodies concerned with standard setting and is sufficiently broad to embrace EFRAG in the liaison and consultation process. Further thought needs to be given to the enhancement of the role of EFRAG, including closer involvement in the work of IASB. However, it should be avoided to create a situation where there are mainly bilateral relationships since there is a risk that certain geographical interests will be dominant. Transparency is needed in the selection of relationships.
38. Section 23 refers to the IASB, in consultation with the Trustees to establish and maintain liaison with national standard setters and other bodies. We understand IASB not only to mean the Board itself but also the other committees such as IFRIC and SAC.

Topic 7: Consultative arrangements of the IASB

39. We welcome the introduction of the “comply or explain” requirement providing reasons when certain steps of the (voluntary) due process are not applied. We have noted with interest the IASB recommendations and next steps for its due process and recognise the progress already made by the IASB. We welcome the explanation of the IASB agenda setting process and publication as part of its procedures since the IASB's work programme, its priorities and convergence priorities need to be properly debated with involvement of all major players as part of a transparent process.
40. We welcome the possibility for the IASB to lengthen its comment period when considered appropriate, in particular to address translation concerns. We urge the IASB to provide longer comment periods for Exposure Drafts, Discussion Papers and Draft Interpretations and to differentiate in the length of the comment period depending on the complexity of the proposal and nature of the consultation.
41. We also urge the Trustees to make the work programme of the IASB, and notably the prioritisation, issues open to further consultation to enhance the transparency and accountability. At least the SAC should have a role in advising on the work programme and agenda prioritisation (see paragraph 52). Public consultation could also be considered. The results of such a public consultation would need to be discussed with the SAC.
42. We urge the Trustees to indicate to the Board to work towards fewer changes to standards that have been recently issued. Accounting standards may need to be regularly revised, but care should be taken with the pace of change. The Board needs to fully complete its considerations before a final standard is issued, in order to avoid the need for amendments soon after the standard is published.

Topic 8: Voting procedures of the IASB

43. We welcome the proposed majority voting of 9 out of 14 votes for an exposure draft, revised IAS, IFRS or final interpretation of IFRIC but observe that the voting requirement in our view is also directly related to the composition of the Board. The importance and use of IFRS have increased in today's world. Publication of new standards and major changes to existing standards have a significant economic, legal and practical impact on the stakeholders involved. It is of crucial importance that exposure drafts and standards for global application, especially on controversial issues, are carefully considered and have a demonstrable broad support within the IASB as a requirement for publication.



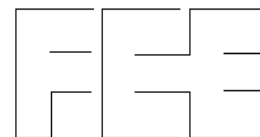
Topic 9: Resources and effectiveness of IFRIC

44. We welcome IFRIC's internal review and appreciate the opportunity for public review of the issues they discussed. However, we would like to reiterate our previous calls for IFRIC to be more active in the area of interpretations in view of the much wider use of IFRS from the financial year 2005, whilst adhering to the principles-based approach. Therefore IFRIC should be better resourced so that it can respond in a timely manner. In addition, the IASB or IFRIC need to develop criteria in order to distinguish interpretations from application guidance developed by other organisations.
45. Networks of national standard setters and regional organisations could be helpful in the context of application guidance, which may be developed in co-operation with IFRIC. IASB/IFRIC should articulate publicly what role they see for application guidance issued by third parties as opposed to their own interpretations. Care should be taken that such guidance does not turn a principle-based approach into a rules-based approach.
46. We note that IFRIC's current work is often close to standard setting and are of the opinion that there is a need for the Trustees to refocus the work of IFRIC to its original role as set out in section 37 (a) of interpreting the application of IAS and IFRS and to provide timely guidance on financial reporting issues not specifically addressed in IAS and IFRS. Given IFRIC's current and expected workload, IFRIC's priorities need to be reconsidered and be limited to issuing interpretations.
47. IFRIC should strengthen its links to Europe - this would include key bodies such as EFRAG, the national standard setters, CESR and national enforcement bodies - during the transition to 2005 and subsequently. EFRAG could play a role in identifying issues arising from European application of IFRS, which should be passed on to IFRIC, with ideas or possible solutions for discussion where appropriate. Access for observers with speaking rights needs to be widened to allow for other important organisations with an interest in financial reporting, such as EFRAG.
48. We note that at present the various parties in Europe are working on some form of additional interim interpretation or implementation guidance mechanism, whilst respecting that only IFRIC should issue formal interpretations.

Topic 10: The composition, role and effectiveness of the SAC

49. We welcome the suggested change regarding the appointment of the Chair of the SAC and possible participation in the Trustees' meetings.
50. We see a need for the Trustees to reconsider the composition of the SAC thereby increasing the institutional representation in the SAC.
51. We welcome the terms of reference and operating procedures of the SAC. In particular we welcome, that - depending upon the issue - the Chair may call for a formal poll to demonstrate to the IASB the extent of support within the SAC for a particular point of view. If the IASB ultimately takes a position on a particular issue that differs from a polled expression of the SAC, it is appropriate that feedback should be given at the next meeting of the SAC on the reasons for the IASB's decision.





52. The SAC should also have a role in agenda prioritisation in that it should be formally consulted with an obligation of the Board to provide written feedback why the agenda was prioritised differently from that recommended by the SAC. However we recognise that SAC should remain an advisory committee.

We would be pleased to discuss with you any aspect of this letter which you may wish to raise with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin'. The signature is fluid and cursive, with a large initial 'D' and 'D'.

David Devlin  
President