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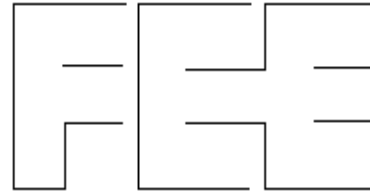
Le Président

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13 January 2004

Mr Göran Tidström
Chairman EFRAG Supervisory Board
EFRAG
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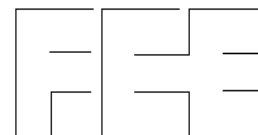
Dear Mr Tidström,

Re: Proposals for the Enhancement of the Role and Working Process of EFRAG

FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to present its formal position on the "Proposals for the Enhancement of the Role and Working Process of EFRAG" (further: "the Proposals") after having consulted our members. The Proposals are restricted to a high level. This is also reflected in our comments. Further elaborations on the Proposals and details thereof need to be included during the implementation process under supervision of the Supervisory Board. Such elaborations may also need to be subject to public consultation. The Supervisory Board should review the performance of EFRAG at regular intervals.

FEE acknowledges the great progress and achievements of EFRAG with its initial resources since its establishment in 2001. EFRAG has become an important player in the European and international financial reporting scene. FEE has been and is fully supportive of EFRAG and has participated actively in the work of EFRAG, both at Supervisory Board and TEG level, and actively comments on EFRAG's draft comment letters in relation to IASB Exposure Drafts. We fully support the rethinking of EFRAG's mission, structure and strategy in light of the current developments at European level and the constitutional review of the IASCF. We appreciate that the process of review of EFRAG's strategy as initially set out in the report of the Strategy Task Force was overtaken by the developments in the period since its publication. Yet we see merit in repeating some of the observations raised in our letter of 10 October 2003 commenting on the initial document. We suggest that the Supervisory Board should address certain of the points raised in the initial Strategy Task Force Report as they are of a more housekeeping nature without them being mentioned specifically in the public Proposals. Other elements are significant within the overall picture of reviewing EFRAG's role and working methods, and should therefore be included in the Proposals.

We believe it to be of crucial importance that EFRAG is fully able to explain its decisions to its constituency. The current review of the role and working process should enhance both the accountability and credibility of EFRAG. An enhanced consultation process and compliance with appropriate due process are essential cornerstones of the enhanced structure and procedures given the public interest role EFRAG has to play notably by giving endorsement advice to the European Commission. It is important that EFRAG speaks with one voice to the outside world. The independence and technical integrity of TEG are essential in this respect. We agree that TEG alone should be entrusted with expressing the views of EFRAG on financial reporting issues, both when commenting on IASB proposals and in giving advice to the European Commission as part of the endorsement process, as stated in the Proposals. We have confidence that a strengthened EFRAG will help Europe to become an important contributor to the IASB standard setting process.



General comments

1. Organisational Structure

In order for TEG and EFRAG to have the highest standing and wield the greatest influence, the objective should be for EFRAG, notably the TEG, to be and to be seen to be as independent as possible. Therefore we suggest that the organisational set up of international bodies aiming to operate independently, such as that of the IASCF and IASB, could be used as a valuable source of worthwhile ideas. This entails taking the strong points from these bodies, within the limitations of EFRAG's private organisational background and relation with its Founding Fathers. Guidance for the function of the Supervisory Board might for example be taken from the IASC Foundation's constitution and more particularly the articles on the duties of the trustees (articles 14 and 16) that aim to strike a balance between the pure trustee work and responsibility for the general direction and strategy of the organisation. EFRAG needs to be relevant to the European market which should be the aim of the Supervisory Board and the Advisory Forum in being involved in the wider consultation as described below.

The structure, procedures and orientations of the IASB and IASCF are currently under review by the IASCF. The Supervisory Board should contribute to this revision and consider the implications it may have for EFRAG's structure and the performance evaluation.

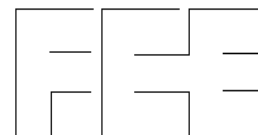
We support a structure involving an independent TEG, an Advisory Forum and the Supervisory Board. The division of tasks between the TEG, Supervisory Board and Advisory Forum as currently drafted needs to be further clarified. Duplication of tasks and functions should be prevented as this would be both inefficient and could jeopardise the transparent view on the EFRAG advices.

Consultation

EFRAG needs to give full consideration to its consultation process including using national infrastructures to obtain input from all stakeholders. A wide and thorough consultation is required involving policy makers, regulators, preparers, users and other stakeholders to ensure that all significant alternative accounting and disclosure policies are thoroughly evaluated. The resulting debate should allow analysis of the economic, legal and practical aspects of the important proposed standards. There is a perception by some that EFRAG comment letters and other EFRAG pronouncements are prepared on the basis of technical accounting matters and seem not sufficiently to consider the economic, legal and practical impact proposed IFRS may have at a European level. A wider consultation process, as already suggested earlier by FEE, should enable EFRAG (TEG) to demonstrate that all relevant matters have been considered and that all interest and stakeholder groups have been heard. This enhanced consultation should facilitate account being taken of the broad issue of improving the quality of financial statements for users. The revised process would enable EFRAG to be informed at an early stage of matters which could be significant in the context of the "European public good" (mentioned in the IAS Regulation) and would, therefore, be able to anticipate any such concerns likely to arise as part of forthcoming endorsement decisions by the ARC and EC.

Supervisory Board

TEG should prepare a plan on action points including broad strategic issues affecting accounting standards. As part of its oversight function in the corporate governance structure, the Supervisory Board should review such a plan in a similar manner as set out in the IASCF constitution in paragraphs 16.c and 16.e. FEE believes that the Supervisory Board should discuss strategic issues only as far as they form part of the oversight function of monitoring, advising on work programme and assessing the general performance of the TEG. The Supervisory Board should not be involved in the technical decision making of the TEG. Any such involvement would impair the standing and political weight of TEG in its discussions with the IASB. The Supervisory Board should for example consider the priorities for the use of the resources available but also proposals for creating a pool of people with technical knowledge and expertise of IFRS, involving career development. It should also consider the due process for gathering and considering the views of different stakeholders in Europe, especially where these are likely to be difficult and controversial issues coming up. The Advisory Forum should be the



main means of gathering such views and assessing the impact of proposed standards on the European business environment. The text of paragraph 3, notably the three examples, may need to be reconsidered in light of a proper division of tasks as suggested above.

The Supervisory Board, in creating the pool of people with technical knowledge, could also play a role in stimulating and identifying European candidates for the IASB related functions (Trustees, Board, IFRIC, SAC and staff).

Advisory Forum

The role of the Advisory Forum should be clearly specified as well as its relations to the Supervisory Board and TEG. The main objectives of the Advisory Forum – better called Consultative Forum – in our view are:

- Wider consultation of stakeholders, including high level senior people
- To ensure that all dimensions, including economic, legal and practical aspects of important proposed standards are fully discussed in the context of the “European public good”
- To ensure that all significant alternative accounting and disclosure policies are fully evaluated.

The Supervisory Board should define the parameters and set the framework within which such an Advisory Forum should operate. The Supervisory Board should decide on membership of the Advisory Forum in consultation with the TEG, Founding Fathers, National Standard Setters, EC and CESR. The dialogue will be between the TEG and Advisory Forum; therefore all members of TEG would attend the Advisory Forum. Supervisory Board members could attend. Further thought needs to be given how the Advisory Forum should be organised, with public consultation on the proposed structure. Issues that need further consideration include:

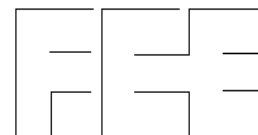
- Size
- Structure (levels, subgroups, etc.)
- Fixed vs flexible membership
- Chairman
- Results of Advisory Forum meetings (output)
- Call for meetings and subjects to be addressed
- Meetings open to the public
- Regular meetings
- Round tables, public hearings in addition to the Advisory Forum meetings.

The Advisory Forum should anyhow not be seen as impairing the independence of TEG.

2. National Standard Setters involvement

The objective of EFRAG is to develop and express the European position on matters related to international financial reporting standard setting. To fulfil this role EFRAG should devote resources in improving the dialogue with European stakeholders, including National Standard Setters, the European Commission and the IASB. We therefore strongly agree with involving the National Standard Setters in the TEG. Chairmen of National Standard Setters should, if their candidature is proposed, be considered as candidates for the TEG provided that they meet the conditions set for members of TEG. Involvement of active Chairmen of National Standard Setters may assist TEG to more fully appreciate the economic, legal and practical dimension and strategic implications of the issues under discussion. We consider a close cooperation with National Standard Setters and sharing of resources of crucial importance for the future of EFRAG, notably in the area of pro-active work.

As already stated in the Proposals, EFRAG is not and should not become a standard setter itself. Identically, FEE is also strongly opposed to establishment of separate European accounting standards.



3. Pro-active work

So far the work of EFRAG, in addition to providing endorsement advice to the EC, mainly consisted of commenting on pronouncements by the IASB. It is important for EFRAG to influence the debate at the IASB at an early stage and to present European views on crucial matters before the IASB has started its considerations or at an early stage of the discussions. Proper consultation should take place on what issues EFRAG should undertake pro-active work. This would, however, require additional resources. Pro-active work could be achieved in close cooperation with national standard setters in joint projects. Similarly joint projects could be undertaken with the Founding Fathers.

The Joint Proposals of 2001 and the Statutes refer already to pro-active work. However, there is no clear understanding as to what is covered by pro-active work. Consideration may be given to the definition of pro-active work and to be selective in this area, given EFRAG's limited resources.

4. Communication and Publicity

EFRAG should review its communication strategy in order to make EFRAG better known with a wider range of stakeholders including the national government level by more actively promoting and reporting about EFRAG. During the process of drafting our reactions to the Proposals to enhance the role and working methods of EFRAG we have noted that even persons actively involved in the financial reporting domain are less well informed about the functions, performance and working methods of EFRAG than might be expected. Publicity to enhance the standing of EFRAG should include an annual report on the activities of EFRAG, published within a reasonable time after the year-end.

Extensive relevant European financial reporting material, studies on specific topics and documentation of best practices have and or will become available. EFRAG could play an active role in the creation and maintenance of a database comprising such knowledge, if a detailed proposal describing the project and the required resources were developed and, after consultation, approved by the Supervisory Board.

We propose that the Proposals address who is formally the spokesman of EFRAG: would this be the Chairman of TEG, Chairman of the Supervisory Board or the Secretary General? In our view it should be the Chairman of the TEG. It would be helpful to clarify this issue.

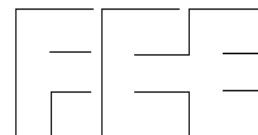
We also believe that EFRAG should make a positive effort to reach out to the accession countries in order to associate relevant people in these countries with the work of EFRAG.

5. Interpretations and implementation guidance

FEE believes that the issue of interpretations should be addressed in the Proposals. On 10 October 2003, FEE organised a Round Table on Enforcement: Coordination and Interpretations, where it was clearly concluded that European interpretations other than those of IFRIC are undesirable and that there should be no European interpretation mechanism. The Proposals should make clear that IFRIC is the only body setting interpretations and avoid creating a European interpretation mechanism through EFRAG or otherwise.

Where in Europe a general problem has been identified, it could be brought to the attention of IFRIC with a proposed solution. EFRAG could help to coordinate and drive this process. EFRAG could also encourage national standard setters to address issues in a similar way. Therefore, EFRAG could consider how to identify issues arising from European application of IFRS which should be passed to IFRIC, with ideas or possible solutions for discussion where appropriate. However, EFRAG should not itself take action in issuing interpretations. This issue could be addressed in the Proposals by introducing a few sentences in paragraph 2 where it is indicated that EFRAG is not a standard setter.

In our Round Table, representatives of IFRIC undertook to clarify the role of guidance as opposed to IFRIC interpretations. We would encourage EFRAG to explore this issue with IFRIC. There may be



implementation issues where guidance at national or European level might be helpful. Such guidance would need to be developed in cooperation with IFRIC. Care should be taken that guidance does not turn a principles-based approach into a rules-based approach. If guidance were to be issued, EFRAG could play a role in coordinating the national initiatives.

6. Possible negative endorsement advice

We agree that the current decision structure for a negative endorsement advice, with the Supervisory Board expressing its view separately, is not appropriate since EFRAG should be one body speaking with one voice. We therefore believe that the Supervisory Board should have an active role in a possible negative advice to the EC on endorsement of standards, since a possible negative advice would have a major impact and effectively create European financial reporting standards different from global IFRS. Therefore we believe that the TEG has an obligation to consult with the Supervisory Board on a negative advice in order to get the full commitment for such a position of all founding fathers. The required consultation would replace the right of the Supervisory Board to make a statement of its own in case of a negative advice of the TEG.

A similar structure could be considered for those positive endorsement advices on standards where previous significant reservations made by EFRAG were not taken into account by IASB.

As said we are of the opinion that a negative endorsement advice is conceptually different from a positive advice and would therefore prefer to stick to the two-third majority rule. If the proposed rules on the presentation of dissenting views were implemented and applied, there is no apparent need to change the current decision rules. The presentation of existing dissenting views would ensure that substantial divergent views are made known to the European Commission and the ARC. A negative advice should only be a last resort.

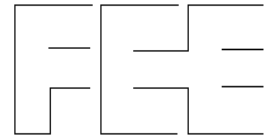
In relation to voting procedures in case of a negative advice of a qualified majority, we suggest that, in order to find a compromise on the issue and to continue the further analyses, it could be considered:

- To introduce a very high quorum of those that need to be present in order for a vote on a negative advice to be valid
- To clarify whether a vote between 50-67% would mean no advice and not automatically a positive advice, as some seem to conclude.

7. SMEs

We regret that EFRAG has decided not to address SMEs in its Proposals. As already indicated in our letter of 10 October 2003, we strongly believe that the Proposals need at least to refer to SMEs and SME reporting since:

- In some Member States, enterprises will be allowed to use IFRS in their individual accounts, and SMEs may thus be forced to use IFRS (by market pressure from competitors, banks or foreign investors, for example). Moreover, many of the European national standard setters are in the process to converge their standards to IFRS over time (a process which has already started);
- SMEs are very important for the European economy. SMEs are also a sensitive issue for the EP;
- EFRAG has founding fathers in the SME area. Also FEE operates a separate SME/SMP Working Party and is active in the SME field;
- IASB is now active on SME reporting and seems even to accelerate the project;
- EFRAG participates in the IASB SME Advisory Panel since September 2003.



In appointing members to EFRAG TEG, it is our opinion that at least one member should preferably have SME reporting experience. Also in the appointment of additional project managers, it would be helpful if at least one of them would have experience with SME reporting.

Questions

Question 1 EFRAG proposes that the Supervisory Board of EFRAG should be involved in setting strategic orientations and objectives for EFRAG, in addition to the Trustee's role adopted previously (see paragraph 3).

- (a) Do you agree? If not, why?*
- (b) Do you agree that the Supervisory Board should not have the right to make a statement of its own in case of negative advice?*

See our general observations under 1 and 6.

Question 2: EFRAG proposes that the consultation process of EFRAG with all stakeholders be broadened in order to better analyze and consider any strategic political and/or economic impact of IFRS by the establishment of an Advisory Forum (see paragraph 4).

- (a) Do you agree that the consultation process be broadened? If not, why not?*
- (b) Do you consider that the creation of the Advisory Forum is the right way to achieve such an objective? If not, what alternative would you suggest?*

See our general observations under 1.

Question 3: EFRAG proposes that the decision process of EFRAG TEG (Technical Expert Group) be modified, by the adoption of a simple majority rule and the publication of dissenting views (see paragraph 5).

- (a) Do you agree that the decision process needs to be modified? If not, why?*
- (b) Do you agree with the proposals? If not, what would you suggest?*

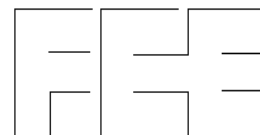
We do not agree as far as it relates to a negative endorsement advice, see our general observation under 6. The current text seems to support the impression that EFRAG is seeking to give negative advice more often.

We agree with the possibility for TEG members to express dissenting opinions, under the conditions indicated as already foreseen in the joint proposals of 31 March 2001 and in the statutes of EFRAG in paragraph 5.5.3.b. Any such dissenting opinions are those of the individual TEG member, not a reflection of the viewpoint of particular stakeholders. However, the dissenting opinion may well be enhanced or supported by comments received by EFRAG during its consultation process on a particular proposal.

Question 4: EFRAG proposes that the coordination with National Standard Setters be strengthened (see paragraph 6).

- (a) Do you agree that a strong coordination with National Standard Setters is needed?*
- (b) Do you agree with what EFRAG and National Standard Setters should achieve through active coordination?*
- (c) Are there other areas in which close coordination can be beneficial to EFRAG?*

See our general observations under 2.



Question 5: EFRAG proposes that the European Commission more formally acknowledges EFRAG as the Technical Expert Group set out in the IAS Regulation (see paragraph 8).

(a) Do you agree?

We consider it of crucial importance that the EC formally acknowledges EFRAG as the accounting technical committee providing support and expertise to the EC in the assessment of IFRS and being the sole body responsible for pronouncing on the financial reporting merits of IASB output. This would enhance in itself the role and credibility of EFRAG both within Europe and vis-à-vis the IASB. EFRAG should also give attention to its dialogue with the ARC so that ARC at an early stage is better informed about the positions (and dissenting opinions) taken by EFRAG.

The last paragraph of section 8 of the Proposals reflects our initial proposal for a form of endorsement (blessing) in a very general way. After having completed our internal sounding and considered the views of others and in the anticipation that the EC does formally acknowledge EFRAG, as apparently intended, we do not any longer need to include the last paragraph. To have people of sufficient seniority and calibre on the Supervisory Board appointing the TEG and have well respected candidates for TEG are the real significant issues.

Question 6: EFRAG has identified the need for additional resources in order to achieve its objectives (see paragraph 9).

(a) Do you agree that a full time and paid chairman is desirable?

(b) Do you have suggestions as to the sources of funding that EFRAG should rely on?

(c) Do you believe that the proposed additional resources are adequate? If not, what is needed?

FEE agrees with a movement towards a full time Chairmanship.

Paragraph 9 of the Proposals gives a comprehensive overview of funding. We stress that ideally all TEG members should be paid out of the EFRAG budget in order to respect full independence of TEG members. However, we are concerned that even the proposed funding is not sufficient to carry out the tasks envisaged by EFRAG in the Proposals. FEE agrees that there is a need for EC funding: either in form of a direct contribution to the funding or (at a later stage) in form of establishing the necessary legislation for a direct levy on companies.

We would be please to discuss any aspects of this letter you may wish to raise with us.

Yours sincerely,

David Devlin
President