

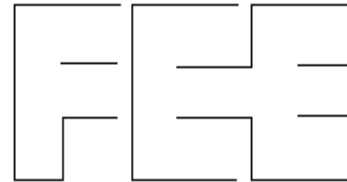
Date
17 October 2005

Le Président

Fédération
des Experts
Comptables
Européens
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Mr. Göran Tidström
Chairman EFRAG Supervisory Board
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Dear Mr. Tidström,

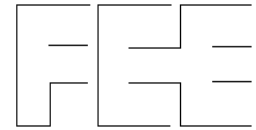
Re: Achieving Consistent Application of IFRS in the EU: A Discussion Paper

FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) appreciates the work EFRAG has undertaken on the important subject of achieving consistent application of IFRS in the EU. We welcome the discussion paper and the fact that the debate on consistent application has now been brought into the public domain so that all stakeholders have the opportunity to express their views. The lively debate at the EFRAG Advisory Forum of 21 September evidenced the topicality of the subject and the need for clarity on the actions that will be taken in Europe.

We have provided below some general remarks and responses to the issues addressed in the paper.

General

1. As stated on many occasions, as a general principle, FEE supports high-quality global principle-based standards and global interpretations of these global standards. 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. A principle-based approach to financial reporting means that clear principles are designed to serve the public interest, accompanied by a limited number of rules that show how those principles should be applied in common situations. Such an approach promotes consistency and transparency and helps companies and their advisers to respond appropriately to complex situations and new developments in business practice. It also prevents the risk of regulatory overload from detailed rules that may be developed in an attempt to cope with all the eventualities that may arise in practice. A principle-based approach requires both companies and their auditors to exercise professional judgment. It is necessary to strike a proper balance between principle-based standards, which do not address every circumstance that may arise in practice and the consequent pressure for numerous interpretations, which would result effectively in a rule-based system. A principle-based approach allows for addressing different circumstances and may result by doing so in an increased harmonisation. Within such framework, interpretations should not therefore, be numerous. Accordingly, European interpretations separate from those of IFRIC are highly undesirable.
2. There is a need to clarify the meaning of consistent application: "consistency" is a potentially misleading word. Consistency does not mean identical. It means consistency with the standards that is to say accounting which is acceptable by reference to the standards and therefore within the boundaries of IFRS. We wish to underline the importance of recognising that IFRS cannot and do not intend to set out the exact treatment to be followed in every case. IFRS include explicit but also several implicit options. In many areas this allows companies, subject to their auditor's views, to select the accounting treatment that is most appropriate to their particular circumstances, within the principles-based framework of IFRS. This approach also means that the same type of transaction



may be treated in different ways by different preparers, reflecting variations in their circumstances and their business purposes of the transaction. It does not only cover consistency in form but also consistency in substance. This flexibility, which some would describe as 'inconsistency', is appropriate in a principles-based framework. To seek to remove all such areas of flexibility would lead to an escalation in the volume of detailed rules, which risks frequent mismatches between the accounting and economic impact of transactions, while not respecting the terms of the standards.

3. Regulators and (the entities') auditors should not risk becoming accounting standard setters. Enforcement should be clearly separated from standard setting since a regulator should not 'police its own standards'. CESR Standard No 1 on Enforcement of Financial Information states that enforcers will not issue general application guidance on IFRS and will convey material controversial accounting issues to the bodies responsible for standard setting or interpretation.
4. We strongly believe that creating a European interpretation mechanism should be avoided, as interpretations should be only made at a global level, by IFRIC. This is even more important since IFRIC interpretations will become part of European company law once they have been endorsed. However, taking into account IFRIC's restricted capacities, it should be possible for national standard-setters to develop own interpretations, if – and only if - an issue is exclusively of domestic importance and the IFRIC or the IASB decide not to deal with it. The term 'domestic issues' should be defined as specific national circumstances, in particular specific legal requirements. For interpretations on matters of domestic importance issued by a national standard-setter, the IFRIC should be asked to provide negative clearance in order to confirm that IFRIC can see nothing in the domestic interpretation that is inconsistent with IFRSs. Truly domestic issues are, anyhow, expected to be rare.
5. We wish to recall that in October 2003, FEE has organised a Round Table on Enforcement: Coordination and Interpretations as a private gathering of the main parties involved and refer you to take account of the conclusions of that meeting in coming to the ultimate position.

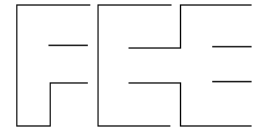
Demand for interpretations

6. Depending on the country, the requests and perceived demand for (European) interpretations and implementation issues differ. In a majority of countries, we have serious doubts whether there is any need for European interpretations. With the improvement of the due process of IFRIC under consideration following the recent IASCF paper "IFRIC – Review of Operations: Consultative Document", many of the existing problems may no longer be encountered. These problems include:
 - A perception that IFRIC refuses to deal with too many issues;
 - The limited explanation as to why issues are rejected;
 - The long period between submitting a request for interpretation and receiving any answer; and
 - A lack of transparency in IFRIC's agenda committee.

Therefore we agree that Europe should proceed on the basis that the IFRIC will ensure that it is at all times resourced sufficiently to prevent a backlog of European issues meriting an interpretation arising. It has already been announced that the capacities of IFRIC are to be expanded. IFRIC should also strengthen its cooperation with national standard-setters and other institutions able to support the interpretation process.

Demand for a (European) urgent issues mechanism

7. An urgent issues mechanism should not be set up, for European, worldwide or national issues. We agree with EFRAG's conclusion that urgent issues should be subject to full due process. Thus, urgent problems should be resolved by IFRIC assigning the necessary resources to those issues in a timely manner, whilst still complying with its due process.



European support mechanism to IFRIC

8. We doubt that there is any need for European interpretations in most countries, but we recognise that many implementation and application issues will arise during the transition to IFRS and thereafter, in particular in those countries that are less used to a principles-based system of standards. We agree that an initiative is needed in Europe to discuss implementation issues, but only if appropriate safeguards can be introduced to prevent such discussions resulting, in effect, in a new layer of interpretative material. This is an important pre-condition. European quasi-interpretations would add to the complexity of accounting literature and discourage companies and their auditors from exercising appropriate professional judgement. Furthermore, no such mechanism is likely to have the capacity to cope with extensive requests for pre-clearance advice if they were to be encouraged as the norm.
9. FEE is ready to be involved in any discussions. We recognise the potential benefits of a discussion and exchange of views on implementation issues related to IFRS amongst relevant parties, notably regulators, auditors, preparers and users, in order to encourage an appropriate degree of consistent implementation of IFRS in Europe. It would be important for all relevant stakeholders to be involved to obtain sufficient breadth of experience. This could be organised in a relatively informal way as a forum, drawing on a wide range of skills and experience with IFRS within the EU. EFRAG is a true reflection of the various backgrounds and experiences relevant in this respect since it involves preparers, users, auditors as well as the national standard setters and CESR. EFRAG should therefore, in our view, have a role in any forum.
10. We also agree that this forum could function as a European support mechanism to IFRIC. Where a general problem has been identified, it could be brought with the help of this forum to IFRIC with a proposed solution, thereby identifying IFRS interpretation issues of pan-European significance for IFRIC to consider. EFRAG could help to coordinate and drive this process in centralising the views after proper discussion with all relevant parties in the forum.
11. The discussion paper tends to the conclusion that the analysis of the issue and the proposal for an interpretation to IFRIC should not be published in order to avoid giving the proposal the status of European GAAP. We acknowledge that suggested solutions might add complexity to the body of IFRS accounting literature. However, this risk can be mitigated by a clear explanation of the status of proposed solutions, emphasising that they are not at all binding on constituents nor even best practice. If IFRS interpretation solutions were proposed, these proposals should be published in a transparent way. We are of the opinion that privileged knowledge about the proposals by those being involved in their development should be avoided. Furthermore, it is in the interest of the constituents to be fully aware of the outcome of the technical work carried out by the mechanism. Preparers could choose to use the published interpretation proposals in the interim period pending IFRIC's conclusions.
12. Any European mechanism should work in full coordination with IFRIC. It should be a supplementary system: issues relevant for Europe could still be raised by stakeholders directly with IFRIC.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin', written in a cursive style.

David Devlin
President