



30 March 2009

Mr Göran Tidström  
Chairman  
EFRAG Supervisory Board  
Square de Meeûs 35  
B-1000 BRUXELLES

E-mail: [commentletter@efrag.org](mailto:commentletter@efrag.org)

Ref.: FRP/HvD/SS/SR

Dear Mr Tidström,

**Re: EFRAG Draft Comment Letter on the IASCF Review of the Constitution: Identifying Issues for Part 2 of the Review**

- (1) FEE (the Federation of European Accountants) Accountants) is pleased to provide you with its comments on the EFRAG Draft Comment Letter on the IASCF Review of the Constitution: Identifying issues for Part 2 of the Review.
- (2) FEE has also directly commented on the IASCF Constitution Review and submitted its letter on 27 March 2009. Please find a copy for your information enclosed.

***Cover letter***

- (3) We fully support the key points raised in the EFRAG draft comment letter in relation to the agenda setting process and the issue of re-exposure.
- (4) We believe that the IASCF should submit the IASB workplan to an annual public consultation process. Better defined procedures need to be in place - with appropriate oversight - for adding issues to, but also deleting issues from, the work programme. Completion of such a public consultation would also assist in getting the priorities right and may help to address the problem of current heavy agenda (we note the serious delay to some of the most important projects). Finally, before issues are added to the agenda, a needs analysis, including an initial costs/benefits analysis, should be carried out to demonstrate that there is a genuine need for a new or revised standard in areas not already covered by an existing standard or interpretation. We consider that this may now be at the right point in time to launch such a public consultation given the clear need for the IASB to reconsider its priorities.

- (5) Like stated in the EFRAG draft comment letter we also have concerns in some cases whether the procedures in respect of a re-exposure of standards and interpretations are appropriate. A proper due process is fundamental for the legitimacy and credibility of the IASB. There have been cases of the IASB making significant changes to its original proposals and not exposing its revised proposals for comment. In the past the Board sometimes has based its decision whether or not to re-expose on expediency. We agree with the proposal of EFRAG that the Trustees should consider developing a means of challenging the re-exposure/non re-exposure decisions of the IASB, and requiring the IASB to follow on explicit process, including explaining the basis for its judgement that re-exposure is not necessary in cases where significant changes have been made. The Trustees would need to see that the process has been properly followed, including that the IASB's arguments are well founded.

### **Questions**

**Question 1** *The Constitution defines the organisation's primary objective in the following manner: "to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions."*

*In fulfilling that objective, the organisation is "to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies".*

*Does the emphasis on helping 'participants in the world's capital markets and other users make economic decisions', with consideration of 'the special needs of small and medium-sized entities and emerging economies', remain appropriate?*

- (6) We agree with EFRAG that the primary focus should remain on the needs of capital market participants. Shareholders and investors require a performance oriented view: the objective of financial statements is to provide information that is useful to a wide range of users in making economic decisions, with priority given to the needs of providers of debt and equity capital. Transparency of the financial performance is the key objective of financial reporting.
- (7) We agree with EFRAG's observation in paragraph 3 that it would be preferable to delete convergence of national accounting standards as a stated objective and instead focus on a single set of high-quality global accounting standards as the objective.
- (8) We would appreciate if the EFRAG letter could request that the Constitution should be aligned with the new Conceptual Framework which has dual objectives: economic decision-making and stewardship. The Constitution should therefore also address stewardship in its objective since stewardship is a basic characteristic of accounting and financial reporting. Accountability of management is important for users and existing shareholders to take decisions about the ability of management to generate economic value. It has been the main reason for producing financial statements in Europe. For SME reporting, the objective of stewardship is even more important than the predictive value of reporting.

**Question 2** *In the opinion of the Trustees, the commitment to drafting standards based upon clear principles remains vitally important and should be enshrined in the Constitution. Should the Constitution make specific reference to the emphasis on a principle-based approach?*

- (9) Like EFRAG we are strongly committed to high quality, global and principle-based financial reporting standards and support a specific reference to the principle-based approach in the Constitution. We support the objective of creating a single set of global standards, since 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. Global financial markets require financial information prepared in accordance with global standards for reasons of competitiveness and comparability and for capital raising purposes.

**Question 3** *The Constitution and the IASB's Framework place priority on developing financial reporting standards for listed companies. During the previous review of the Constitution some commentators recommended that the IASB should develop financial reporting standards for not-for-profit entities and the public sector. The Trustees and the IASB have limited their focus primarily to financial reporting by private sector companies, partly because of the need to set clear priorities in the early years of the organisation. The Trustees would appreciate views on this point and indeed whether the IASB should extend its remit beyond the current focus of the organisation.*

- (10) Although there may be some logic to bring all financial reporting standard setting activities under one umbrella in the longer term by transferring the IPSASB out of the IFAC structure into the IASCF structure (in all circumstances there should be a separate Board for public sector issues), we are of the opinion that in the near future this is neither feasible nor desirable given the current workload priorities of the IASB. We recognise the importance of international standards for public sector accounting and welcome the close cooperation between the IPSASB and the IASB.
- (11) We agree with EFRAG that the current workload of the IASB does also not allow for widening the scope of standard setting to not-for-profit entities or public sector financial reporting. There is a danger that it would detract from the Board's ability to achieve its objectives pertaining to its current focus which is primarily on financial reporting by private sector companies if it develops standards for not-for-profit entities and the public sector.

**Question 4** *There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognises the need to have close collaboration with accounting standard-setting bodies. Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives?*

*If so, should there be any defined limitations?*

- (12) We agree with EFRAG that the Constitution should allow for the possibility of closer collaboration with other organisations than accounting standard setters. The IASB should work more formally and closely with specialised organisations, which provide interfaces with financial statements, for example in the form of valuation or measurement information. This means that the IASB will need to recognise and set up properly structured and transparent procedures to secure cooperation with other recognised specialist standard setters.

**Question 5** *The first part of the review of the Constitution proposed the establishment a formal link to a Monitoring Group. Under this arrangement, the governance of the organisation would still primarily rest with the Trustees. Although the first part of the review has not yet been completed, the Trustees would welcome views on whether the language of Section 3 should be modified to reflect more accurately the creation of the Monitoring Group and its proposed role.*

- (13) We agree with EFRAG's observations on the Monitoring Board. We would like to make an additional comment in relation to this question concerning financial stability objectives. FEE believes that accounting standards should continue to focus on the primary objective of meeting the needs of capital market users. Macro-economic objectives, including financial stability should be achieved by other means such as macro-economic policy and regulatory actions. Continued cooperation between the IASB and global regulatory networks such as IOSCO and FSF are important. We support the IASB in the efforts to maintain and enhance their relationships by participating actively in the FSF and IOSCO accounting related activities. We are strongly of the view that technical accounting standard setting should remain independent and not be politically influenced. Standard setting has become of greater interest to public policy makers and regulators as a result of wider international adoption of IFRS and the financial and economic crises. The creation of the Monitoring Board provides a mechanism to achieve appropriate accountability.

**Question 6** *The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?*

- (14) We agree with EFRAG that the geographical distribution of the Trustees is important. We consider that the current and prospective committed users of IFRS (preparers, users and other stakeholders) both in geographical terms and economic weight must be properly reflected in the appointment of the Trustees.

**Question 7** *Sections 13 and 15 set out the responsibilities of the Trustees. The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation—the fundamental operating principle of the organisation. In addition to these constitutional provisions, the Trustees have taken steps to enhance their oversight function over the IASB and other IASC Foundation activities. The Trustees would welcome comments on Sections 13 and 15, and more generally on the effectiveness of their oversight activities.*

- (15) Like EFRAG we are broadly satisfied with the Trustees' role and oversight responsibilities as set out in the Constitution. However we agree with EFRAG that the way the Trustees carry out these responsibilities should reflect changing times: the role and responsibilities have changed from the setting up of IASB and getting the standards internationally recognised towards monitoring and oversight. The Trustees' activities should evolve accordingly. One example is the role of the Trustees in relation to agenda setting as discussed in detail in our response to Question 9.
- (16) We also agree with EFRAG's concerns expressed about the overload of consultative material that has recently been issued over a fairly short period.

**Question 8** *The Trustees are responsible for ensuring the financing of the IASC Foundation and the IASB. Since the completion of the previous review of the Constitution, the Trustees have made progress towards the establishment of a broad-based funding system that helps to ensure the independence and sustainability of the standard-setting process. (For an update on the funding status, see <http://www.iasb.org/About+Us/About+the+IASC+Foundation/Funding.htm>).*

*However, the Trustees have no authority to impose a funding system on users of IFRSs. The Trustees would welcome comments on the progress and the future of the organisation's financing.*

- (17) We believe that EFRAG in its letter to the IASCF should refer to and welcome the EC Proposal for a Decision of the EP and Council on establishing a Community Programme to support specific activities in the field of financial services, financial reporting and auditing. These proposals cover inter alia IASCF and EFRAG.
- (18) The funding of the IASB and IASCF should be structured in such a way that it is sustainable so that the IASCF can commit to long term projects and that the funding process and structure do not jeopardise the independence of the standard setting process.

**Question 9** *Commentators have raised issues related to the IASB's agenda-setting process. The Constitution gives the IASB 'full discretion in developing and pursuing its technical agenda'. The Trustees have regularly reaffirmed that position as an essential element of preserving the independence of the standard-setting process. However, they would welcome views on the IASB's agenda-setting process and would appreciate it if, in setting out views, respondents would discuss any potential impact on the IASB's independence.*

- (19) We agree with the main thrust of the observations of EFRAG in relation to the agenda setting process and agenda prioritisation. We also refer to our comments raised in this respect concerning the covering letter.
- (20) Furthermore we believe that it would be useful for EFRAG to refer in its response to this question to the financial crisis. We wish to suggest that the IASB considers the implications of the financial and economic crisis and the increasing demands regarding financial reporting that this has put on preparers, as well as auditors and others, when considering the issuance of discussion papers on conceptual issues. This includes those relating to financial statements presentation and revenue recognition. In order to allow all stakeholders to engage in the debate on the fundamental conceptual issues, the timing of the launch of such discussion papers could be improved. It would moreover be helpful if the deadlines for already issued papers could be extended in order to give all stakeholders, also in the current circumstances, the opportunity to extensively debate the issues and to provide comments. EFRAG provides similar concerns in paragraph 17 of the draft comment letter in relation to the proposed volume of activity and the vast amount of consultative material IASB is issuing over a fairly short period.

- (21) Another issue we believe that could usefully be raised by EFRAG is the issue of convergence. We are of the opinion that convergence has been important providing it leads to better high quality standards. However, convergence should not be the only factor driving the work plan and the related priorities in the future. A proper balance needs to be struck with the speed and nature of the changes, in particular where current standards are not perceived as being flawed. We note the freeze period of 2011 announced for the application of IFRS, but are concerned that this could lead to an acceleration of amendments to the standards before that date. We appreciate the position EFRAG takes in paragraph 3 of its draft comment letter in this respect on deleting convergence of national accounting standards as a stated objective.

**Question 10** *The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the IASB Due Process Handbook. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the procedures require too much time, what part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the IASB Due Process Handbook.*

- (22) We agree with EFRAG that the Board should have an obligation to seriously reconsider a draft standard where the quantity and substance of the comments received on the proposals indicates widespread lack of support for the standard whilst recognising that standard setting is not a matter of adopting proposals by popular vote. We support EFRAG's call for greater oversight by the Trustees on this aspect of the IASB's work.

**Question 11** *Should a separate 'fast track' procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a 'fast track' procedure?*

- (23) We agree with EFRAG that any further amendments to IFRS – resulting from the crisis or otherwise should be given full consideration as to their implications and potential unintended consequences and be subject to an appropriate due process. Contrary to EFRAG, we are of the opinion that the Constitution could include a 'fast track' procedure to be used in rare circumstances, respecting an appropriate minimum due process, and the use of the 'fast track' procedure being subject to approval of the Trustees and SAC (so the procedure should be laid down in the Constitution but its use should be subject to approval in each individual case). We suggest EFRAG to address in its comment letter the minimum due process. It should include a minimum consultation period. The IASB Due Process Handbook should include express provisions for the use of a shortened due process, including circumstances surrounding its application and approval of the use of the 'fast track' procedure in order to avoid any inappropriate use of this procedure. We suggest that those circumstances be limited to issues of wide concern amongst the community of IFRS stakeholders.

**Question 12** *Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?*

**Question 13** *Attached to this discussion document are the terms of reference for the SAC, which describe the procedures in greater detail. Are there elements of the terms of reference that should be changed?*

(24) Like EFRAG we welcome the re-constitution of the SAC, and hope that the representation model will result in a more effective mechanism and improved communication of the SAC. This will assist the IASB in being better informed about the needs of preparers, users and other stakeholders. We believe that the Trustees should monitor the performance of the SAC in order to determine whether it now fulfils its intended function and role following its recent reorganisation.

**Question 14** *Should the Trustees consider any other issues as part of this stage of their review of the Constitution?*

(25) We agree with EFRAG's observations on re-exposure and refer in this respect to our comments on the cover letter.

(26) EFRAG may wish to consider to include in its comment letter some observations on the complexity of financial statements. FEE raised this issue in its comment letter to the IASCF:

- As the business environment in which we operate today has grown increasingly complex, it is unavoidable that accounting standards also reflect in their requirements the increasing complexity of many business transactions, which in turn may result in more complex financial statements. The IASB should continue to ensure that its (proposed) standards are clear and comprehensible, as well as capable of being implemented and audited in a practical manner.
- We believe that changes to the standards should be made only when they result in a more faithful representation of economic reality, in better presentation and/or increased transparency. A proper balance needs also to be struck between the goal of improving financial reporting and the ability of preparers, auditors and, importantly, users of accounts, to be able to produce, audit and interpret the resulting financial information in a meaningful way. When standards become too conceptually purist, rules-based and complex, the financial statements prepared on the basis of these standards are no longer understood by management and as a result no longer considered relevant for internal management purposes. The result of this would be that financial reporting would become a compliance exercise, rather than a tool for internal and external decision-making. This would be highly undesirable.
- To avoid such a situation, it is important that standard-setters find the appropriate balance between the ideal academic solutions and practical standards that limit complexity to the necessary minimum. The Trustees have an important role to play in setting guidance for criteria to be considered in the cost-benefit analysis before new standards projects are added to the agenda.

- The costs associated with educating preparers and users in application and understanding of existing and proposed accounting standards, as well as keeping such knowledge current are increasing dramatically. In addition there are the costs and risks associated with frequent substantial system changes resulting in many cases from changes in the application of accounting standards. 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 that there will be 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.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hans van Damme', with a long, sweeping horizontal line extending to the right.

Hans van Damme  
President

Encl.