



Association pour la participation des  
entreprises françaises à l'harmonisation  
comptable internationale



## A F E P

### Association Française des Entreprises Privées

IASCF  
Constitution Review  
30 Cannon Street  
London EC4M 6XH  
UK

Paris, March 19, 2009

Re: "*Constitution Review phase 2*"

We welcome the opportunity to comment on the second phase of the IASCF Constitution Review. We commend the IASCF for the rapid progress achieved in the few past years towards a single set of high quality financial reporting standards worldwide. We remain strong supporters of this objective. Such a success makes the need for increased legitimacy and accountability of the IASCF and the IASB even greater. Our main comments, summarised below, are driven by this concern:

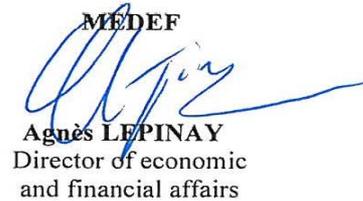
- 1- We deeply regret that our recommendations related to the composition of the Monitoring Board have not been followed. We believe that international or regional organisations responsible for financial stability should be represented in the Board.
- 2- For efficiency reasons, we believe that the priority of the IASB for the next five years should remain focussed on the needs of financial markets, i.e. deal with financial reporting standards for listed companies only.
- 3- We re-iterate one of our long standing recommendations, i.e. that the IASB agenda (content and timing) be approved by the Trustees, after consultation of the Monitoring Board and the SAC. Also we believe that the Trustees should be entitled to decide on the organisation of public consultations relating to the IASB strategic orientations and work programme. Those consultations should be carried out under the supervision of the SAC, which would report to the Trustees.
- 4- We believe that the IASB due process includes all possible steps of consultation and is as transparent as possible with regard to specific projects. We observe nonetheless that it is not yet satisfactory. To be improved, the IASB due process must be carried out partly independently from the IASB. Appropriate impact analyses should be performed prior to the issuance of any standard.

We provide more detailed comments and answers to the questions raised in the review in the appendix to this letter.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us.

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Chairman

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Appendix to our letter on IASCF “Constitution Review phase 2”  
Answers to the specific questions raised in the invitation for comments

## 1 Objectives of the organisation

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### *1.1 Keep the objectives of the IASCF as they are, but narrow down and reassign the IASB priorities for the next few years*

We do not believe that the objectives of the organisation should be narrowed down in any way, taking into consideration that the IASCF has been set with a long term perspective. We note however that each Constitution Review should be the opportunity to review the priorities for the next five years and best adjust the IASCF resources to those priorities.

In this context, we recommend that the IASB should remain focussed in the next five years – at least - on serving the needs of capital markets solely, i.e. issuing standards applicable to listed companies only. In fulfilling this objective, the IASCF and IASB should coordinate with international organisations in charge of financial stability (central banks).

Needs of not-for-profit organisations and the public sector should not be considered at present. We also recommend that the ambiguity of referring to “special needs of small and medium-sized entities” be lifted. To that purpose, we formulate the following recommendations:

- The IASCF should assess to what extent the growing sophistication of IFRS and the increasing related burden are acceptable for small and medium-sized *listed* companies. Standard setting by the IASB should not make the access to financial markets continuously more difficult for smaller entities. Although the objectives of the IASCF calls for taking account of the “special needs of small and medium-sized entities”, the IASB has discarded without any analysis that small and medium-sized listed companies might have special constraints;
- Responsibility for setting standards applicable to entities without public accountability should be entrusted to an IASCF committee separate from the IASB. The objectives of that new committee should be to ensure that the IFRS for NPAEs about to be issued be implemented and updated in accordance with the needs of the users of NPAEs financial statements. That new committee could be set up as the IFRIC (members meeting only if and when a need arises, no remuneration, expenses paid), except that it should have full authority to issue its standard provided the standard complies with the IFRS conceptual framework. The IASB has shown how awkward finalising the IFRS for NPAEs has proven: most IASB members do not have the appropriate background and experience, some of them believe that such a standard should not exist, and all of them subordinate their decisions to the development of other IFRS. A separate dedicated committee would provide more relevant answers more quickly.

### *1.2 Make specific reference to a principle-based approach*

The IASB has undertaken to develop a robust, principle-based approach to standard-setting, beyond what had been pursued by the IASC. This approach should in our view be encouraged even further. We support the Trustees in their desire to enshrine the commitment to drafting standards based upon clear principles in the IASCF Constitution. Such a commitment is one more step in safeguarding IFRS from any undue influence convergence programs may trigger.

### *1.3 Include liaison with regulators and organisations in charge of financial stability*

The IASCF shares with numerous organisations the objective of making financial markets more secure and more efficient. We therefore support that the IASCF and the IASB liaise with other organisations such as regulators and committees responsible for financial stability. In our view, the Constitution should not only allow for the possibility of those liaison relationships, but recommend strongly that they be established.

## **2 Governance of the organisation**

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### *2.1 The composition of the Monitoring Board is not adequate and we wonder whether conditions have been set up for proper accountability of the IASCF*

We remain unhappy with the composition of the Monitoring Board. Despite our recommendation that organisations in charge of worldwide financial stability should be members of the Board: FSF, Central Banks (Fed, BCE...), none has been nominated. Furthermore IMF and World Bank who were proposed were in fine withdrawn. The Basel Committee should not be an observer but a member and the Insurance regulator should be represented too in the same capacity.

The financial crisis has highlighted that regulators have not been in a position to avoid the turmoil arising and spreading. The only organisations that have been in a position to, and been responsible for, taking action against the financial crisis are those organisations that we believe should be members and that have been left out.

We fear that the Monitoring Board will not have the appropriate level of efficiency, if it operates on the basis of one annual meeting only. We note that other meetings can be set at the request of the Monitoring Board; however this sounds more like an exceptional process than a routine duty.

## **3 Trustees**

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### *3.1 Geographical criteria are welcome; however a different balance should be struck.*

Geographical criteria are necessary in our view to provide the necessary diversity within the Trustees (and the Board also) reflecting various accounting backgrounds and economic contexts. For that reason we think that the composition of the IASCF proposed should be improved to take into account the strong bonds history has created between different geographical areas with possible common ground for accounting traditions and language. As a result we believe that Oceania should be grouped with North America.

### ***3.2 Trustees should approve of the IASB agenda and timing***

For many years now, stakeholders all around the world have asked for the Trustees oversight duties to expand and so have we. We agree that the IASB should remain independent in their technical work in order to ensure the robustness and the consistency of the IFRS. However independent technical work does not in our view necessarily include:

- setting the agenda (launching significant projects, fundamental reviews of standards requiring a discussion paper as a first step);
- making strategic shifts influencing the final accounting model (shifts from the existing practice that deeply modify the information provided to users).

On these higher level issues the IASB should make proposals to the Trustees and the SAC. The Trustees should approve the IASB's proposed agenda priorities (including the scope of future standards, allocation of resources and timing) and the Board's strategic changes to the accounting model. The Trustees should carry out their appraisal work in close cooperation with the Monitoring Board, taking into account recommendations made by SAC. To that end, Trustees should be entitled to decide to launch public consultations which would be carried out under the supervision of the SAC.

### ***3.3 Trustees should ensure the independence of the consultation process***

The entire consultation process of the IASCF relies on IASB secretariat, i.e. technical staff subordinated to the IASB. We believe that this lack of independence strongly contributes to constituents remaining fundamentally unhappy with the IASB due process, although the due process of the IASB includes every step one can dream of and is operated with a high degree of transparency.

Allocating staff resources to SAC and the Trustees is in our view the right way ahead to provide the appropriate level of independence to the IASB due process. Those staff members should be responsible for setting the agenda of, and writing the minutes, (SAC and Advisory Group meetings), provide to SAC and Trustees a high level understanding of the technical issues at stake and directions for developments. They should also be responsible for the analysis of comments received out of the due process, as well as for the preparation of feedback statements, all of which should be performed under SAC supervision and in liaison with the Trustees. SAC should also be responsible for the nominations of Advisory Groups, so that the IASB has no bearing on who provides views. To that purpose, SAC should designate a nominating committee.

In addition to the above, we believe that final standards should be subject to a quality review before publication, on the basis of feedback statements mentioned above, all the more so that the IASB is divided on the adequacy of the standards (dissenting views are expressed). Feedback statements should ensure that only approved strategic shifts are implemented. IASB should have to demonstrate that impact analyses were conducted prior to publication.

Post implementation reviews should be conducted under SAC responsibility, here again to ensure the proper level of independent assessment. Post implementation reviews have been a welcome addition to the IASB due process to ensure that the most recent standards do bring improvements in financial reporting without causing difficulties of application. When doubts and controversy (within the IASB itself) arise, extra care should be taken before publication.

The objective should be that post implementation reviews highlight only issues that failed to be identified in the consultation process.

Quality review before publication and post implementation reviews are part of the responsibility of the Trustees to oversee the efficiency of the IASB due process.

### ***3.4 Trustees have made progress to ensure proper funding of the IASCF***

In terms of financing we believe that the Trustees have made good progress thanks to the high level support public authorities have granted to the IASCF.

## **4 IASB**

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### ***4.1 Safeguarding the appropriate level of independence does not mean working out of control***

While addressing the Trustees oversight duties, we have indicated how in our view the IASB agenda should be set. We have addressed how to improve the IASB due process as well.

As indicated we do not believe that our proposals are likely to infringe the IASB necessary independent standard-setting process. We agree and support that the IASB should make its decisions, free from direct or indirect undue influence by lobby groups. Making a project active however requires a proper understanding of why a project is needed and how the issue identified is planned to be addressed. Too many projects of the IASB have been started without any prior analysis of weaknesses in the existing accounting practice or without any specific objective being set. Without interfering in the technical work, Trustees would, in approving the projects to be put on the agenda, ensure that appropriate priorities have been identified and selected.

Bringing independence to the consultation process does not infringe the IASB independence either. It is likely to bring the appropriate level of objectivity in the analyses prepared for the Board's attention.

### ***4.2 The existing IASB due process is appropriate to deal with matters of urgency***

We believe that the present due process provides appropriate steps for fast track procedures:

- Short term amendments do not require specific agenda setting decisions such as to require consultation with the SAC and approval by the Trustees; the IASB can make appropriate decisions quickly;
- A minimum due process should be observed; 30 days is the minimum delay required in the IASB due process handbook and we believe it is appropriate.

As a result, we do not believe that change is needed in this area.

### ***4.3 Approval of final standards should require higher majority thresholds***

As indicated in our answers to previous consultations on the IASCF Constitution we disagree with the low level of qualified majority necessary for approving final standards and interpretations (currently, only 9 out of the 14 members need approve, which represents a less than two-thirds majority). Qualified majority should never be less than two thirds of the IASB members present. Such a requirement would be consistent with the level of independence that IASB has in its technical work. The world relies on 14 (soon 16) individuals to provide high quality financial reporting standards. When up to five members of the IASB dissent from a standard proposed for publication, the level of controversy within the IASB indicates a major flaw in the standard. If a series of changes are proposed at the same time, changes which are not subject to controversy should be proposed for publication, if supported as such by a qualified majority of the Board.

## **5 SAC**

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### ***5.1 The SAC should remain within a size limit for the sake of its efficiency***

We believe that the final number of members should not go far beyond 30 if the assembly is to remain manageable and efficient in participating in 2 day meetings 3 times a year.

We understand – and share – the concern that stakeholders from diverse geographical and background origins be adequately represented. The smaller the number of SAC members, the higher the concern. To alleviate such a concern, associations that are not represented directly could be invited to send in comments and views to SAC dedicated staff on the basis of observer notes published on the IASB website one month ahead of every meeting. This would be a way to reconcile two antagonistic objectives.

### ***5.2 SAC responsibilities should be expanded***

The IASCF is in the process of reviewing one more time how SAC operates because of a perceived lack of efficiency of the committee.

We believe that one of the main reasons – if not the reason – lies in the lack of impact SAC has on the overall due process. SAC members need to rely on a high level understanding of the issues at stake (on the basis of documents specifically prepared by their staff) and be consulted on significant potential changes to IFRS (as a strategic committee would do), instead of being asked to tackle the issues at a quite-detailed technical level.

In our proposals above on how to bring some independence to the IASB due process we have recommended a series of changes which have an impact on SAC management and responsibilities:

- SAC should be responsible for nominations in IASB Advisory Groups;
- SAC should have dedicated staff resources (who could serve equally on Trustees' tasks – see our proposal above);
- SAC should be consulted by the Trustees (and not only by the IASB) before approval of IASB agenda proposals and of strategic shifts of the accounting model;
- SAC would be consulted by the Trustees (and not only by the IASB) before approval of IASB agenda proposals and of strategic shifts of the accounting model. SAC would supervise the public consultations that the Trustees would have decided to launch;
- SAC would play an advisory role in the quality review prior to standard publication..

In addition to the above, making agenda and documents available long before meetings take place would ensure better preparation and participation of SAC members.

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