

Mr. Paul A. Volcker  
Chairman, IASC Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Mr Volcker,

### **IASC Foundation Constitution Public Hearings**

EFRAG is pleased to have been invited to participate in the International Accounting Standards Committee Foundation's (the IASCF's) public hearings on its constitution.

EFRAG supports the development of one set of globally accepted accounting standards that will enhance the efficiency of the capital markets around the world and increase the quality of information reported by entities in many jurisdictions. These standards should be principle-based in order for information to be presented in the manner most useful for users around the world and developed by an independent, private sector standard setter. We therefore support the International Accounting Standards Board (IASB) in this role.

Appendix 1 to this letter addresses some additional points we consider important to bring to your attention, whereas appendix 2 to this letter addresses the specific issues raised by the IASCF in its 22 March 2004 issues paper.

The most important points we intend to raise (and elaborated further on in appendix) are the following:

We strongly urge the IASB to provide longer comment periods for Exposure Drafts, Discussion Papers and Draft Interpretations.

We believe that, when appointing Trustees, more weight should be given to countries and regions committed to applying IFRS/IAS.

In the same way we believe that when appointing board members more weight should be given to countries and regions committed to applying IFRS/IAS

We believe there should be a full and transparent due process on agenda prioritization.

We suggest there should be an open and due process in connection with the review of the IFRIC operations.

In addition we request, that EFRAG should have

- formal liaison standard setter status
- observer membership of the IFRIC
- formal status as a member of SAC

Having said the above we would like to add that we believe that the IASB has performed well since the transition from the IASC and we believe that the Board generally is issuing high quality standards. We also stress that we support the IASB as a standard setting body that is independent of all interests, including political.

We appreciate the opportunity to discuss these issues on 29th June 2004. If you have any questions concerning our comments, please contact Stig Enevoldsen on +32 2 510 08 88.

Yours sincerely,

Göran Tidström  
*Chairman*  
Supervisory Board

Stig Enevoldsen  
*Chairman*  
Technical Experts Group

## **ADDITIONAL COMMENTS**

We would like to raise some additional points:

- We believe that standards issued should always be in full conformity with the Framework or the Framework should be changed. IFRSs are now part of the legal system in Europe and therefore then have to be predictable and compliant with the Framework Europe accepted when paving the way for the IASB to be the body issuing standards to be used in Europe.
- We are concerned that the Board seems to be more focused on convergence with the US FASB than setting principle-based standards for countries and regions committed to use the IFRSs. We consider convergence to be a long term objective rather than a practical possibility in the short term.
- The standards issued by the IASB have become increasingly complex, more voluminous and more prescriptive as to details, and we shall therefore urge the Trustees to work for simpler and more understandable standards that can be implemented in practice in regions where the adoption of the IFRSs is a giant step.
- We also urge the Trustees to work for fewer changes to standards that have recently been issued. We understand and accept that accounting standards may need changes at intervals, but we would recommend the Board to consider the issues comprehensively and complete these considerations before issuing the standards.

## **IASCF CONSTITUTIONAL REVIEW – PUBLIC HEARINGS EFRAG VIEWS ON SPECIFIC ISSUES**

### **Issue 1: Whether the objectives of the IASCF should expressly refer to the challenges facing small and medium-sized entities (SMEs)**

As mentioned in our response letter dated 19<sup>th</sup> February 2004 we have some sympathy for having SME accounting as a specific objective, but it may equally be acceptable that the constitution refers to developing high quality accounting standards that will provide different user groups with high quality, understandable and transparent financial information.

### **Issue 2: Number of Trustees and their geographical and professional distribution**

The committee has proposed to expand the number of Trustees to 22 members and to change paragraph 7 and delete paragraph 8. We can partly support the change because it provides more flexibility to the Trustees to adapt to developments as the selection is no longer based on persons nominated from specific organizations, but we do not support the proposed geographical spread, because we believe that additional weight should be given to those countries and regions committed to the use the IFRSs when selecting Trustees.

Additionally it is in our opinion very important that there is a very open and transparent due process on the selection of new Trustees and reappointments.

### **Issue 3: The oversight role of the Trustees**

We can support the proposed changes to 16 (c) and (f), but we do not agree that one of the IASCFs objectives should be to develop and review educational programmes.

We believe it is important for the Trustees to ensure that there is an appropriate due process on the agenda prioritization, so that we do not see constant changes to recently issued standards.

We recommend that there is always a full and transparent due process when selecting or reappointing board members.

### **Issue 4: Funding of the IASC Foundation**

No comment offered.

### **Issue 5: The composition of the IASB**

We support the proposed change of paragraph 14, because it will enable more part timers to be appointed, which has been the preferred solution in large parts of Europe.

We support the proposed change to paragraph 20 because it also puts the focus on practical experience, but we would have liked to see the word “recent” (practical experience) included.

We also support the relaxation of the too specific requirements in paragraph 22 for specific backgrounds.

However we strongly believe that the Board members should have a bias towards experience from countries and regions committed to use and/or implement IFRSs.

In addition we find it very important that the Board members should have a more reasonable diversity of experience and backgrounds. They should not necessarily come to the present extent from countries with very strong and mature capital markets, using the same language and a tradition of independent standard setting bodies, especially taking into account the influence of the FASB on the future evolution of IFRS through the convergence project. As countries with a different tradition of regulating financial reporting, often through legislation, start to apply IFRS widely, their experience should be given more substantial weight in the composition of the board of IASB. This point is important for the ultimate widespread acceptance of IFRS as standards of the highest quality and the future success of the convergence project.

Therefore, in future the Trustees should ensure a wider composition with members having more diverse background, and it might be considered to have a limit on the number from a specific country say 3 from the US and one from any other country in the world, in the absence of exceptional circumstances. To allow the Board to have a wider perspective, experience and background will not breach the requirement of technical expertise as the foremost qualification – on the contrary because the entire world has a lot more qualified persons to choose from than just a restricted part of the world.

### **Issue 6: The appropriateness of the IASB’s existing formal liaison relationships**

We can support the proposed change to the constitution so that the specific liaison standard setters are not mentioned because we trust that the IASB will continue the relationship with EFRAG, a relationship we appreciate very much. In any case EFRAG believes that we should have equal liaison status as the other recognized liaison standard setters. If the specific liaison relationship continues to be mentioned in the constitution, EFRAG expects to be formally recognized in the constitution too.

### **Issue 7: Consultative arrangements of the IASB**

We acknowledge the IASB’s recent proposals to strengthen the deliberative processes and welcome the initiative that is a major step in the right direction and far more transparent than most other standard setting organizations.

We strongly encourage the IASB to extend the comment periods on discussions papers, exposure drafts and draft interpretations to allow time for translation and consideration for those for whom English is not the first language and also to allow time to countries and regions where regulation of accounting rules have not until now been done in the form of independent standard setting.

We recommend that there be a transparent due process on the agenda prioritization including public exposure and justification for the selected agenda items.

### **Issue 8: Voting procedures of the IASB**

EFRAG believes it would be an advantage if there were a requirement to have a supermajority of 9 votes to approve a standard. It will show the outside world that the IASB is issuing robust standards demonstrably broadly supported by board members and not just a slim majority.

### **Issue 9: Resources and effectiveness of the International Financial Reporting Interpretations Committee (IFRIC)**

We understand that the IFRIC is itself conducting an internal review of its procedures. We welcome such a review and we believe it is needed, because the IFRIC has only issued one interpretation so far and at the same time it appears that IFRIC is currently conducting activities that are not fully consistent with paragraph 37 of the Constitution.

We would welcome an open and transparent process in the review of IFRIC's activities, supported by a questionnaire for public comment.

Finally we reiterate that we believe EFRAG should be represented as an observer in IFRIC.

### **Issue 10: The composition, role, and effectiveness of the SAC**

We support the suggestions including having a chairman independent of the Board and the staff. We also support the requirement for specific mention of the liaison between the Trustees and the SAC.

In addition we believe that the SAC should have a more formal influence on the agenda prioritization, so that the Board should explain in writing why the agenda was prioritized differently from that recommended by the site where a change is made. Having said that, we recognize that the SAC is an *advisory* committee only and should remain so.

The SAC agenda should be important to both the members of SAC and to the Board members and the SAC should comprise high level people to get really valuable input for the Board.

EFRAG requests formal representation on SAC in the future.