

2 August 2005

Thomas Seidenstein  
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Dear Mr Seidenstein

### **Due Process of IASB: Draft Handbook of Consultative Arrangements**

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on the IASCF paper *Due Process of IASB: Draft Handbook of Consultative Arrangements*. EFRAG welcomes the decision to review the due process of the IASB; although the IASB is, in our opinion, one of the most transparent accounting standard-setters in the world, there is always room for improvement. In general, we support the proposals in the draft Handbook. Our comments on the paper are set out below.

- 1 Paragraph 5 summarises the procedure for selecting IASB Board members. It refers to *vacancies* being advertised. We assume a vacancy arises only when an existing Board member is either not eligible for re-appointment or does not wish to be re-appointed. In our view, no Board member should be re-appointed without first a search being made for possible alternative candidates, because it is only in that way that the trustees can be confident that the Board will comprise (in the words of paragraph 20 of the constitution) “a group of people representing the best available combination of technical skills and background experience...”. That search should always include advertising for possible candidates.
- 2 Paragraph 24 describes the consultation process that the Board goes through before taking an agenda decision.
  - (a) We think the description would be more complete and up to date were it to refer to the joint IASB/FASB agenda decision process that now exists.
  - (b) In our view the agenda consultation process could be improved by incorporating a mandatory public consultation stage.
  - (c) Our perception is that the Norwalk agreement has had a fundamental effect on the way the IASB operates, on its agenda priorities, and on the style and content of the standards it produces. Although we are in complete agreement with the objectives of the Norwalk agreement, we nevertheless think that, as a global standard-setter, the IASB should not have changed fundamentally the way it operates, its agenda priorities, and the style and content of its standards without consulting publicly on the direction it is proposing to take. We therefore believe

the IASB should be obliged to consult publicly in future before entering into such agreements.

- (d) We also do not think it is too late to carry out a useful public consultation on the working practices developed in the light of the Norwalk agreement. A number of concerns have been raised by commentators in Europe and elsewhere about whether those working practices are, in practice, compromising the independence and transparency of the IASB. We recognise that this is not a simple issue and that, if the IASB is carrying out a project jointly with FASB, it is a partnership and that will be reflected in the working practices. However, it remains a fundamental principle of the IASCF constitution that the IASB should not be under the influence of any particular jurisdiction and it is important in that context for the IASB to consider carefully the practical effect of the recent changes. For example, bearing in mind that an individual person's views tend to be shaped by the environment in which that person has most experience, the IASB needs to consider whether the combination of having the staff member leading the project and, during joint meetings with FASB, a majority of those at the table from the same jurisdiction results in the experiences gained in one jurisdiction having more influence than is appropriate. Other issues, such as how a joint position is reached "for the sake of convergence" when the two Boards disagree—is the IASB more inclined to compromise than FASB—may also be relevant. Consulting on the working practices being applied in the light of the Norwalk agreement would enable the IASB to address these concerns and show its continued commitment to the principles set out in the constitution.

- 3 EFRAG notes (from paragraph 30) that the IASB will normally publish a discussion paper as its first publication on any major new topic "as a vehicle to explain the issue and solicit early comment from its constituents". We strongly support this intention. Issuing discussion papers at an early stage in a project helps the IASB's constituents to understand the potential scope of the project and (if the paper reflects the IASB's views) how the IASB might be thinking about the development of the project; thus enabling them to participate more effectively in the debate. The IASB can only benefit from enriching the debate in this way. However, to maximise this benefit it is important that the consultative paper is issued at an early stage before the IASB's thinking has become fixed.
- 4 Paragraph 42 explains that the normal comment period for a consultative document is 90 days, although for major projects a longer period will normally be allowed. In our opinion:
  - (a) the normal comment period for a discussion paper should be 120 days; and
  - (b) although there should continue to be flexibility as to the length of the comment periods for exposure drafts, there ought to be more 120 day comment periods in the future than there have been in the past so that the consultation process is less hurried than it is at present. Allowing a longer period gives constituents more time for mature reflection and is therefore likely to result in higher quality comment letters, which can only benefit the IASB's work. Conceivably, 120 days should be the norm, with shorter periods used only when a narrow issue is involved.
- 5 The paper does not refer to 'lead times'—in other words, the period between the date of publication of an IFRS and its effective date. Allowing sufficient time for entities to prepare for the implementation of a new or revised standard is in our opinion an

essential part of the due process. A hurried implementation is often a poor implementation, so giving preparers time to understand the new requirements and develop the necessary systems changes and sources of information will result in enhanced financial reporting.

The length of lead times is even more important for areas like Europe that have an endorsement process. As the draft 'Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB' (issued by the IASB in February 2005) explains, "there is a need for a lead-time to be provided by the IASB to allow [these endorsement functions to be performed] so that [jurisdictions] have every opportunity to establish and maintain a set of national or regional standards that enable their constituents to continue to make an unreserved statement of compliance with IFRSs."

We therefore suggest that the IASB's procedures should formally recognise the need to allow sufficient time in the IASB's implementation timetable for the proper implementation of the new or revised standard and for the necessary endorsement processes to be completed.

- 6 Paragraphs 60 and 61 explain the process followed when a request is received from a constituent for an item to be added to the IASB's agenda. We wonder whether for such requests it might be worth adopting a process similar to that now being adopted by the IFRIC to help ensure transparency of agenda decisions. (In other words, the reason for rejecting a request should be exposed in draft form for a month or so and then published on a database.)
- 7 We also have a few very minor wording suggestions, which we have set out in the appendix to this letter.

We hope that you find the above comments helpful. If you wish to discuss them further, please do not hesitate to contact Paul Ebling or myself.

Yours sincerely

Stig Enevoldsen  
**EFRAG, Chairman**

Appendix: EFRAG's minor wording suggestions, made in response to the IASCF's *Due Process of IASB: Draft Handbook of Consultative Arrangements*

- a The second sentence of paragraph 84 implies that only the *chairmen* of the partner standard-setters attend the IASB's meetings with the partner standard-setters. That is not the case because other representatives of the standard-setters usually attend, and indeed sometimes the chairman is not present. It might be preferable to refer to "the chairman and or other representatives".
- b The paper uses three different terms—'working groups', 'advisory groups', and 'steering committees'—to describe the same thing.
- c The first bullet point of paragraph 109 should probably refer to the SAC.