



12 April 2001

Göran Tidström, President
FEE
Rue de la Loi 83
B-1040 Brussels
Belgium

RE: Formation of the European Financial Reporting Group - EFRAG

Dear Mr. Tidström:

The Global Financial Reporting Advocacy Committee (GFRAC) of the Association for Investment Management and Research (AIMR)¹ is responding to the Press Release dated 20 March 2001 issued by Private Sector Bodies in Europe, concerning the structure of the European Financial Reporting Advisory Group (EFRAG).

The GFRAC is a standing committee of AIMR charged with representing the views of investors and maintaining a liaison with bodies that set financial accounting and reporting standards in a global context, particularly the International Accounting Standards Board. The committee is also charged with responding to requests for comment from national standard setters and regulators on international financial reporting issues.

The GFRAC is currently comprised of AIMR members from various countries within Asia, Europe, and North America. Members of the committee are familiar with various accounting standards and financial reporting regimes and are well versed in the issues relating to international accounting standards. A list of GFRAC members has been enclosed with this letter.

Comments On the Proposed Structure of the EFRAG

Our profession has the greatest interest in the development of a truly global set of accounting standards and therefore, we strongly support the establishment of the new International Accounting Standards Board (IASB) and the decision of the European Union to adopt International Accounting Standards (IAS) for listed companies by 2005. Moreover, we welcome the enhanced European input to the development of IAS.

We firmly believe that the EFRAG should be structured to ensure that accounting standards are neutral and represent fairly the substance of a business transactions and/or activities. High quality information is the "lifeblood" for efficient capital markets. Investors must be able to rely on the underlying accounting principles, on which financial and non-financial information are predicated, and be confident that the principles are formulated without any bias towards a special interest and/or political persuasion. In other words, accounting standards must faithfully represent the economic substance of business transactions and activities, as well as provide information in a neutral unbiased manner to all market participants. Moreover, accounting standards must require fair and full disclosure of relevant and timely information. Such transparency enhances the ability of market participants to assess properly the economic position and future viability of enterprises no matter where their business operations are located.

We believe that objective global accounting standards, which are set and implemented correctly, lower the cost of capital, resulting in significant benefits to society as a whole. Any parochial and political implications, therefore, cannot be justified within this framework and would cause inefficiencies in the capital markets as

well as increase in the cost of capital. Thus, the EFRAG should ensure that such implications do not taint the quality and objectivity of the IAS.

Therefore, we are pleased to see that the proposed formation of the ERAG will support the convergence to a global set of standards, emphasizing high quality information that is neutral, comparable, reliable, and relevant. We believe firmly that the process of developing accounting standards in Europe should be interfaced very closely with the work of National Standard Setters and the IASB. Thus, we are encouraged by the proposed two-tier structure of the EFRAG, including a Technical Expert Group (TEG) comprised of national standard setters, the accountancy profession, preparers and users. However, we believe strongly that individuals affiliated with the Boards of the national standard setters, regardless of their national affiliation, should represent a clear majority on this Group. Such a composition will ensure that there is a technical and unbiased view regarding the adoption of IAS by the European Commission and thus, promote an efficient interface for a global set of accounting standards.

Closing Comments

The Global Financial Reporting Advocacy Committee appreciates the EFRAG's consideration of our views while deliberating the adoption of IAS by the European Commission. If you have questions or seek further elaboration of our views, please contact Georgene Palacky by phone at 1.434.951.5334 or by e-mail at gbp@cfainstitute.org. We would be pleased to answer any questions or provide additional information you might request.

Respectfully yours,

Trevor W. Nysetvold, CFA
Chair, Global Financial Reporting
Advocacy Committee

Georgene Palacky, CPA
Associate, AIMR Professional Standards
and Advocacy

¹ The Association for Investment Management and Research is a global, nonprofit organization of over 49,000 analysts, portfolio managers and other investment professionals in 100 countries. Through its headquarters in Charlottesville, Virginia and more than 100 Member Societies and Chapters throughout the world, AIMR provides global leadership in investment education, professional standards, and advocacy programs.