

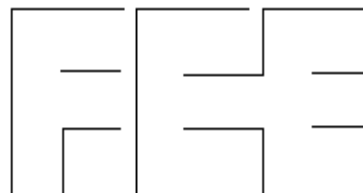
Date  
18 June 2004

Le Président

Fédération  
des Experts  
Comptables  
Européens  
AISBL

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Mr Paul Volcker  
Chairman  
IASCF  
30 Cannon Street  
London  
UK – EC4M 6XH



Dear Mr. Volcker,

Re: Constitution Review

FEE (Federation of European Accountants, Fédération des Experts Comptables Européens) is grateful for your invitation to the public hearing on the Constitution Review in London on 29 June. FEE will be represented by David Devlin, FEE President, Hans Van Damme, FEE Vice-President Financial Reporting and Saskia Slomp, FEE Technical Director. We are pleased to submit our written comments in advance of the meeting, with a focus on the ten main issues identified and the possible approaches under consideration by the Constitution Committee.

*1. Whether the objectives of the IASC Foundation should expressly refer to the challenges facing SMEs*

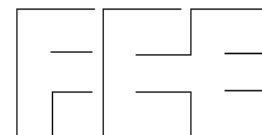
The current objectives (paragraph 2a) seem to concentrate primarily on the financial reporting in the context of participants in the world's capital markets. The text in the present constitution refers also to other users making economic decisions. We are of the opinion that the objectives should be generalised so that they can also be made relevant for use by SMEs.

We would like to underline again the significance of SMEs for the European economy. Transition to IFRS for SMEs should be encouraged and facilitated. FEE welcomes the IASB project on SMEs, although we believe that a standard for these types of entities cannot just be achieved by omitting certain disclosures. The scope of the current review should thus encompass SME issues and the need for SME experience amongst IASB members and staff.

Generalising the objective also has a further advantage, as if needed at a later date, other types of organisations could be covered, such as non-profit organisations. A generalised objective would also accommodate the use of IAS / IFRS as the basis for the public sector IPSAS.

The possible approach refers to the special needs of SMEs and emerging economies. We are of the opinion that it will be difficult to find a definition for an "emerging economy". This is another argument for generalising the objective rather than expressly referring to SMEs and emerging economies.

We agree that education could play an important role in reinforcing the IASCF objectives.



## 2. *Number of Trustees and their geographical and professional distribution*

We would like to reiterate that the selection process of Trustees and their geographical distribution are more important than the mere number of Trustees. We welcome the announced improvement in communication and transparency.

We are disappointed that Europe is only allocated six seats. We consider it important that the current and future users of IFRS (preparers, users and other stakeholders) both in geographical terms and economic weight are properly represented amongst the Trustees. The proposed fixed geographical distribution of Trustees does not correspond to this situation and it would be appropriate to revise it.

## 3. *The oversight Role of the Trustees*

We welcome the proposed approach of strengthening oversight.

## 4. *Funding of the IASC Foundation*

We have no particular observations to make.

## 5. *The composition of the IASB*

We want to reiterate that the IASB needs to have links with practice. Therefore its members should have practical experience of the use of high quality financial reporting standards from present or recent past involvement, in addition to current and up to date knowledge of financial reporting. Part-time members are likely to be closer to practice and therefore their number should not be reduced.

Fresh and up to date experience from relevant industries and practice is needed; this could be achieved by successive rotation of members of the board or by further involvement of part timers (perhaps four should be the minimum number rather than the maximum).

Part time should not be defined in terms of “less than all of their time” but in terms of “spending a sufficient part of their time by working in areas relevant to IFRS”.

The Trustees should as a minimum assess the performance of IASB members that are standing for re-appointment. Practical expertise and performance should be important characteristics. The Trustees need to develop criteria for individual Board member’s performance assessment.

It is important that, not only at Board level, but more importantly within the staff, to maintain a proper spread in professional background and nationality. Countries that do and will use IFRS should be well represented so that best use can be made of their experience with IFRS implementation and application.

## 6. *The appropriateness of the IASB’s existing formal liaisons*

We support widening the wording on liaison to embrace a broader range of standard setters. We doubt however if the wording is sufficiently broad to embrace EFRAG in the liaison and consultation process. As we appreciate that it might be difficult to name EFRAG, the text should be sufficiently broad to allow for liaison with EFRAG, given its foundation in Europe, whilst recognising that EFRAG is not and should not be a standard setter.

## 7. *Consultative arrangements of the IASB*

We refer to our letter to the IASB on strengthening the IASB’s deliberative process (attached as an appendix to this letter).

## 8. *Voting procedures of the IASB*

The importance and use of IFRS have increased in today's world. Publication of new standards and major changes to existing standards have a significant economic, legal and practical impact on the stakeholders involved. It is of crucial importance that exposure drafts and standards for global application, especially on controversial issues, are carefully considered and have a demonstrable broad support within the IASB as a requirement for publication. FEE welcomes the proposed majority voting. FEE strongly supports the selection of option 2: a requirement for 9 votes (64%) for an exposure draft, IAS, IFRS or final interpretation of the IFRIC.

## 9. *Resources and effectiveness of IFRIC*

We welcome IFRIC's internal review. However, we would like to reiterate our previous call for IFRIC to be more active in the area of interpretations in view of the much wider use of IFRS from the financial year 2005, whilst adhering to the principles-based approach. Therefore IFRIC should be better resourced so that it can respond in a timely manner. In addition, the IASB or IFRIC need to develop criteria in order to distinguish interpretations from application guidance developed by other organisations. Networks of national standard setters and regional organisations could be helpful on the context of application guidance, which would need to be developed in co-operation with IFRIC. IASB/IFRIC should articulate publicly what role they see for application guidance issued by third parties as opposed to their own interpretations. Care should be taken that guidance does not turn a principle-based approach into a rules-based approach.

IFRIC should strengthen its links to Europe – this would include key bodies such as CESR, EFRAG and the national standard setters - during the transition to 2005 and subsequently. National enforcement bodies should organise a link with IFRIC in order to inform them about relevant issues they encounter. EFRAG could play a role in identifying issues arising from European application of IFRS, which should be passed on to IFRIC, with ideas or possible solutions for discussion where appropriate. Access for observers with speaking rights needs to be widened to allow for other important organisations with an interest in financial reporting, such as EFRAG.

In addition (paragraph 37.b) we would appreciate less emphasis on convergence and more on the use of IFRS and the wider role of national standard setters in this respect.

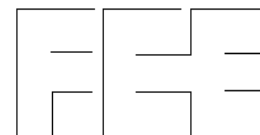
## 10. *The composition, role and effectiveness of the SAC*

FEE welcomes the suggested change regarding the appointment of the Chairman of the SAC.

### *Other observations:*

#### Accountability and due process

The need for independent standard setting in the public interest is paramount. We consider accountability to be an essential characteristic of an independent standard setting process. In our view one of the most important characteristics of the IASB should be accountability. Preparers, users and other stakeholders that are affected by IFRS need to feel part of the standard setting process in the sense that their concerns have demonstrably been carefully considered and appropriately reflected in the resulting standard or basis for conclusions. The Trustees should ensure that transparency in respect of the standard setting process and the pace at which new standards are issued are carefully monitored in order not to impair the standing of IFRS. In order to enhance IASB's accountability and credibility, the IASCF could consider strengthening its public oversight role in terms of public reporting on the assessment of the performance of the IASB and its success in meeting the criteria set for due process and consultation.



Understandability, practicability and auditability

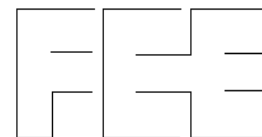
IASB should give careful consideration to the understandability, practicability and also the auditability of its (proposed) standards. Given the increasing complexity of many business transactions, standards have to reflect this in their contents. Changes to standards are aimed at improving their requirements and normally result in better presentation and improved transparency. Yet a proper balance has to be struck between this goal and the practical application of the standards and the understanding by users of financial information. Respect for the principles-based approach and careful consideration of the speed of change may help to resolve the problem in a changing environment.

The costs of learning the standards, keeping up to date knowledge about the standards and proposed standards and application of the standards are increasing dramatically. In addition there are the costs and risks of frequent substantial system changes. 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 in a certain amount of continuity of current standards. The current pace of change may therefore need reconsideration, once the final package of standards for 2005 is established.

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

Yours sincerely,

David Devlin  
President



## **Appendix: FEE comments on IASB's deliberative process**

Ms Andrea Pryde  
IASB  
30 Cannon Street  
London  
UK – EC4M 6XH

Dear Ms Pryde,

### Re: Consultation Paper: Strengthening the IASB's deliberative processes

FEE (Federation of European Accountants, Fédération des Experts Comptables Européens) welcomes the consultation on IASB's deliberative processes. On 11 February we wrote to Mr. Seidenstein, (Director of Operations and Secretary of the IASCF) to present our views on the Constitutional Review. An important part of the letter was dedicated to the due process of the IASB (see attached in the appendix). We welcome IASB's intention to publish a handbook of policies and procedures related to its due process.

We recognise that many of the issues raised in our letter of 11 February have been addressed in the IASB Consultation Paper, notably:

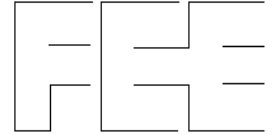
- More frequent use of field testing as part of standard procedures.
- Issuance of a discussion paper before an exposure draft is issued.
- Feedback on comments received: basis for conclusions and website.
- Advisory committees with outside specialists, if IASB itself has not the appropriate knowledge and experience on any particular subject matter.
- Public hearings and round tables.
- Re-exposure in case of fundamental changes compared to original exposure draft.
- Access to Board papers in open meetings.

We also recognise that IASCF includes amongst its ten main issues the voting procedures of IASB and suggests a move from simple majority to qualified majority. Given the wide implications of new or amended standards and IASB's public interest role, and in order to ensure a strong consensus on the Board in respect of new exposure drafts and standards of the highest quality, it is advisable to change the voting rules to a qualified majority.

We welcome the improvements suggested to access to IASB discussions, including the web broadcasting as well as the expansion of observer notes and the publication on the website of a summary of the Board's position on the major points raised in the comment letters (once they have been addressed).

We would however like to draw your attention to the following issues which are not yet addressed in the consultation paper on strengthening the IASB's deliberative processes:

- The IASB work programme, its priorities and convergence priorities need to be properly debated with involvement of all major players. The agenda and work programme need to be established in a transparent process. In addition we would appreciate more transparency in the process for setting IASB priorities. The convergence project should not automatically drive the overall priorities in the IASB work programme.



- The credibility of the due process may be undermined by decisions not to debate criticisms of particular proposals on the grounds that the issues had been considered at an earlier stage, or by a belief that external views might be biased and should thus be excluded.
- The understandability and the practicability of the standards are major issues of concern.
- Given the complexity of the standards and the need to respect a proper due process within the organisation that provides the comments, longer comment periods need to be considered. The length of the comment period could depend on the complexity of the proposed standard.
- Though IASB may authorise translations of documents by other organisations, it would be advisable that guidance is given when translations made by third parties are allowed. More than one authorized translation published in any language should be prevented.

We would be grateful if these additional points could be considered or to receive a clarification on why these issues are not of such importance.

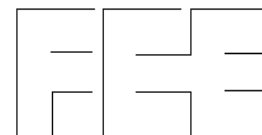
In addition we would like to emphasise that it is necessary for the IASB to give indications that it will continue to work on the standards that have been identified for short time action (for example IFRS 4, IAS 32/39, leasing etc.) before “breaking new ground”.

We encourage the IASB to put the proposed actions into practice as soon as possible.

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

Yours sincerely,

David Devlin  
President

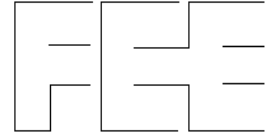


## **Appendix: Extract FEE letter to IASCF of 11 February**

### IASB Due Process

We have indicated before that accountability should be an important characteristic of the IASB. As part of improved accountability, the due process of IASB should be reviewed as well of certain of its processes. We realise that the IASB and staff over the last few years had to work and is working under pressure of the "2005" deadline. It is a great achievement that the IASB is about to complete a stable platform of a comprehensive set of international standards against the backdrop of the many demanding issues that need to be resolved. Based on our experiences so far we would like to make the following suggestions:

- The IASB work programme, its priorities and convergence priorities need to be properly debated with involvement of all major players (see our general comments 2). The agenda and work programme need to be established in a transparent process.
- The credibility of the due process may be undermined by decisions not to debate criticisms of particular proposals on the grounds that the issues had been considered at an earlier stage, or by a belief that external views might be biased and should thus be excluded.
- The understandability and the practicability of the standards are major issues of concern as indicated before. Field-testing could more frequently be considered as part of the procedures for a proposed new standard and for any major revision to a standard.
- For standards on major new topics and major changes to current standards, the IASB should normally issue first a discussion paper before any exposure draft is issued.
- Given the complexity of the standards and the need to respect a proper due process within the organisation that provides the comments, longer comment periods need to be considered. The length of the comment period could depend on the complexity of the proposed standard.
- Given the significant economic, legal and practical impact of IFRS and the public interest role of the IASB and in order to ensure a strong consensus on the Board in respect of new exposure drafts and standards of the highest quality, we consider it advisable to change the voting procedures to qualified majority (10 out of 14 members) (see our general comments 3).
- The feedback published on the results of IASB consideration of comment letters submitted is insufficient. A lack of transparency is evident in current procedures in as far as it is not possible to determine the reasons behind acceptance or rejection of suggestions from comments submitted nor whether they have been accorded consideration in terms of their validity or importance. It is similarly unclear whether particular emphasis is given to the consideration of comments submitted by specific bodies. In addition to the Basis for Conclusions (or as part of it), IASB could usefully introduce a feedback statement to discuss the main comments and the reasons why they are rejected (as far as not yet discussed in the Basis for Conclusions). Our experience with feedback statements issued by CESR and the European Commission is very positive in this respect.
- IASB members in addition to the staff should consider establishing committees with outside specialists to get a more detailed understanding of the issues, implications and complexities at stake for areas that require very specific skills or experience or where the IASB members have reason to believe that they might not have sufficient experience and first hand application knowledge of the topic.
- On major issues, the IASB should seriously consider increasing the organisation of public hearings or round tables, either at early discussion stage, or during the exposure period.
- There is a lack of transparency in the process from exposure draft to final standard. If there are substantial and/or fundamental changes compared to the original exposure draft, the proposed standard should be re-exposed.



- Open meetings would be much more effective if access to Board papers is provided, at least during the IASB meetings, in order to be able to follow the debate (this could be in form of paper copies to be returned after the meeting in order to avoid public distribution of IASB working documents or by allowing visitors to view documents on screen.)
- Though IASB may authorise translations of documents by other organisations it would be advisable that guidance is given when translations made by third parties would be allowed and it should be prevented that more than one authorized translation would be published in any language.