



18 March 2008

Mr Gerrit Zalm  
Chairman  
IASCF  
1<sup>st</sup> Floor  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Mr Zalm,

**Re: Shared European Views on IASCF and IASB**

As representatives of preparers, users, auditors and EFRAG we were grateful for the opportunity to meeting with you and the other Trustees on 22 January to exchange views in order to obtain a better understanding of each other's positions (list of participants in annex to this letter). We appreciated the constructive and fruitful discussion. We summarise in this letter the main European concerns expressed in the meeting that were shared by all European representatives present.

*Global, principle-based standards*

1. Our common aim is sustaining the European use of global financial reporting standards since these standards provide the benefits of increasing confidence in financial markets and of facilitating global investments, thereby reducing the cost of capital. We are strongly committed to high quality, global, principle-based, neutral financial reporting standards.
2. A principle-based approach to financial reporting means that clear principles designed to serve the public interest underpin a limited volume of application guidance that show how those principles should be applied in common situations. This approach promotes consistency and transparency and helps companies, their advisers and auditors to respond appropriately, using professional judgement, to complex situations and new developments in business practice. With such a framework, participants in the financial reporting chain

should not feel the need for, nor require the development of, detailed rules which seek to address all the eventualities that may arise in practice. The IASB/FASB convergence project should not lead to an increase of rule-based accounting standards.

3. We welcome the continuously expressed support by both the IASB and the IASCF for principle-based standards. We call on the IASB to set out the main attributes of principle-based standards and to develop and publish for comment an illustrative example of a complete principles-based standard with those attributes. This would add to the credibility of the Board and give a clear indication to the market of the direction in which the IASB is heading when it expresses its support for principle-based standards. The achievement of a principle based system will need incremental steps by all financial reporting constituents. The IASB has to play a leading role in this respect.

### *Conceptual Framework*

4. The Conceptual Framework is the cornerstone for principle-based standards and forms the basis from which the standards are derived. The Framework provides structure and direction to the development of standards. Standards need to be in accordance with the concepts of the Framework. New standards need to be developed from an overall platform and not on a piecemeal, isolated basis. It is important that the various projects on the IASB agenda are linked.
5. It is therefore of crucial importance that the Conceptual Framework project is given higher priority on the IASB agenda and that sufficient resources, including Board time, are allocated to the project. The Framework project and other fundamental projects such as liabilities and equity, revenue recognition, derecognition, financial instruments, pensions and insurance contracts need to be conducted in close coordination. The Framework project should not be a pure conceptual exercise. Before finalisation, it should be informed by issues that arise in the process of setting fundamental standards that, in turn, will have tried applying the tentative preliminary views elaborated for the Framework. Similarly, we believe that fundamental projects cannot be concluded before the Conceptual Framework project is finished. Many of today's interpretation and application difficulties arise from the inconsistencies between standards and the difficulties in reconciling standards. In addition, we wish to emphasise that the Framework needs to be stable and cannot be subject to continuous change. This is why it is important to test its applicability on key issues, during its development phase.

### *Standards Issues*

6. Although the pace of introducing new standards seems to have slowed down which we welcome as necessary for stability purposes, we call on the Trustees to reconsider the short timeframe within which changes are introduced by the IASB, notably to recently adopted standards such as IFRS 3. Frequent changes lead to undue complexity, uncertainty and costs in practice.
7. Clear information needs to be provided about the IASB's intentions with regard to fair value, including its assessment of the issues around the reliability aspects of fair value also as part of the Conceptual Framework project. Fair value should not be the only starting point of measurement bases. However, it emerges from IASB working papers and staff papers that full fair value is on the IASB's agenda. For example, the IASB staff clearly argued in favour of the full fair value measurement of all financial instruments in papers they presented in January to the Financial Instruments Working Group. The IASB needs to conduct a public debate on measurement in financial reporting and the appropriateness of different measurement bases for different items in the financial statements. In our view, this is more important than, for example, trying to refine or standardise the fair value measurements that

are currently required by accounting standards. According to the public statements made by the IASB Board, there is no intention to move to full fair value.

8. We call on the IASCF to urge the IASB together with the banking industry to find a solution of the IAS 39 carve-out (currently used by some 30 banking groups spread all over Europe) which results in performance reporting that reflects economic reality and is feasible in practice in that it does not oblige the banks to change their business models simply as a result of the accounting requirements. This initiative needs to be accelerated given that the carve out was intended to be temporary but has already existed for 4 years. However, we would like the IASB to improve the current hedge accounting rules. Without proper amendments to the standard (IAS 39) or its application guidance, banks would not agree on a removal of the carve-out.

#### *Due process*

9. We call on the IASCF to require an annual public consultation process on the IASB work programme. A specific procedure needs to be in place - with appropriate oversight - for adding issues to, but also deleting issues from, the work programme. Completion of such a public consultation would also assist in getting the priorities right and in solving the problem of agenda overload, which is at present causing serious delay to some of the most important projects. Finally, before issues are added to the agenda, a needs analysis including an initial costs/benefits analysis needs to be carried out to demonstrate that there is a genuine need for a new standard in areas not already covered by an existing standard or a revised standard when an existing standard is deficient.
10. It is of concern to us that situations have arisen where a clear majority of major categories of commentators expressed serious concerns about a proposed standard but their comments are rejected on the basis that they raise no new arguments and have already been considered by the IASB during the development of the proposed standard. Examples of such situations are the recent revisions to IFRS 3 and IAS 27 (choice of an economic entity model) and to IAS 23 (elimination of the expense option). The fact that comments are raised by a substantial majority of major categories of commentators in all stages of the standard setting process, in itself, should oblige the Board to discuss the concerns again and to reconsider the impact assessment and needs analysis in order to assess whether all practical implications have been appropriately considered. We welcome the introduction of feedback statements of which the first has been published with IFRS 3 but we emphasise that the Board should have an obligation to seriously reconsider a draft standard when the quantity and substance of the comments received on the proposals indicates widespread lack of support for the standard whilst recognising that standard setting is not a matter of adopting proposals by popular vote. Another case will arise soon, considering the lack of support expressed by a wide range of commentators for the proposed revisions to the accounting for joint ventures (ED 9, a short-term convergence project).
11. We wish to express our concern that discussion papers on which the IASB consults tend to be more in the nature of position papers focusing on the Board's proposed way forward than papers that discuss possible solutions and ask for input on the various options. Examples of such discussion papers are the Discussion Papers on Preliminary Views on Insurance Contracts and on Fair Value Measurements. In our view, discussion papers should address the issues and possible ways forward in broader terms, enabling commentators to engage in a broader debate of the issues than tends to be the case at the moment.

### *European concerns on accountability and oversight*

12. A series of emerging issues such as fair value accounting, pension accounting and performance reporting point to the necessity for robust oversight and accountability arrangements to ensure broad acceptance in Europe and elsewhere of the eventual standards. Satisfying the European concerns appears to require:

- An appropriate degree of oversight
- Accountability for the overall performance of the Board
- More visible European involvement in global standard setting with more direct participation by EFRAG.

We congratulate the IASCF and IASB on the increased transparency introduced, at all levels. However, transparency alone is not sufficient to solve concerns about accountability.

13. One of the important factors in this respect is the appointment of the Trustees. The current system of self-appointment is no longer sustainable and needs to be replaced by appointment by an independent body which could be a monitoring group. The perception created by the fact that Trustees are responsible for appointing their own successors does not readily fit with views in Europe on appropriate accountability.

14. The issues of accountability and oversight have led the EC and other regulators to call for the establishment of a monitoring group. The establishment of such a group and the division of tasks between a monitoring group, IASCF and the SAC should be carefully considered in order to ensure that it continues to be possible to attract the right calibre of people to each of these bodies. Appropriate public consultation should be carried out on these issues, possibly as part of the forthcoming review of the Constitution.

### Role of EFRAG

15. A recognised European role in the global standard setting process would be helpful in demonstrating adequate involvement. We recognise the need for a European think tank, providing input at an early stage of the international debate.

16. EFRAG could be of considerable assistance to IASB by helping to provide a technical platform and interface with the political authorities in Europe. In order to play this role, consideration could be given to provide EFRAG with a closer relationship with the IASB, including direct involvement in convergence projects and observer status at IFRIC.

17. The EFRAG Supervisory Board and its Founding Fathers welcome regular contacts and meetings with the IASCF.

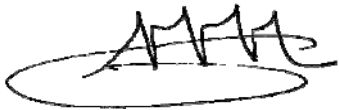
### *Way forward*

18. We commend the IASCF on the good progress made in improving its governance. We welcome the recently announced accelerated review of the IASCF and IASB governance arrangements aimed at enhanced public accountability. However, in our view, further steps are required, as discussed in this letter, to improve the governance of the IASCF and the responsiveness of the IASB to its constituents. We appreciate the great progress made by the IASB in creating the stable platform of standards and repeat our common aim of sustaining the European use of IFRS.

Yours sincerely,



Philippe de Buck, BUSINESSEUROPE Secretary General



Gérard de la Martinière, CEA President



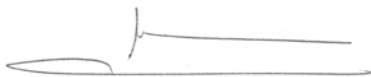
Michel Pébereau, EBF President



Fritz H. Rau, EFFAS Chairman



Göran Tidström, Chairman of EFRAG Supervisory Board



Jacques Potdevin, FEE President

Encl.

**PARTICIPANTS LIST**  
**THIRD EUROPEAN COORDINATION MEETING**  
**BETWEEN EUROPEAN FINANCIAL REPORTING STAKEHOLDERS AND THE IASCF**

TUESDAY 22 JANUARY 2008

<u>IASCF:</u>	Gerrit Zalm Sir Bryan Nicholson Bertrand Collomb Tom Seidenstein Mark Byatt Jens Røder	IASCF Chairman IASCF Trustee IASCF Trustee IASCF Director of Operations IASCF Director of Corporate Communications Former adviser IASCF Trustee, former IASCF Trustee
<u>Accountants:</u>	Jacques Potdevin Hans van Damme Mireille Berthelot Petr Kriz  Mark Vaessen  David Lindsell  Klaus Peter Naumann	FEE President FEE Deputy President Chair FEE Accounting Working Party (Deloitte) Chairman FEE Banks Working Party, FEE Vice-President (PwC) Dutch representative FEE Financial Reporting Policy Group (KPMG) FEE representative on EFRAG Supervisory Board (Ernst & Young) FEE Council, IDW CEO
<u>Preparers:</u>	Patrice Marteau  Peter Sampers  John Glen  Gérard Gil Guido Ravoet Denis Duverne	Chairman BUSINESSEUROPE Working Group on Accounting Harmonisation, Chairman ACTEO Deputy Chairman BUSINESSEUROPE Working Group on Accounting Harmonisation, Senior Accounting Officer Royal DSM Deputy Chairman European Round Table, CFO AirLiquide Chairman EBF Accounts Committee, BNP Paribas EBF Secretary General CEA, CFO AXA
<u>Users:</u>	Javier de Frutos	BBVA Securities, EFFAS
<u>EFRAG:</u>	Göran Tidström Stig Enevoldsen	Chairman EFRAG Supervisory Board Chairman EFRAG TEG
<u>Other:</u>	Liesel Knorr	Member of PAAinE
<u>Observers:</u>	Olivier Boutellis-Taft Henri Olivier Leyre Fuertes Saskia Slomp	FEE CEO FEE Secretary General FEE Project Manager FEE Technical Director