



27 March 2009

Mr. Gerrit Zalm  
Chairman  
IASB Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

cc: Tamara Oyre

E-mail: [constitutionreview@iasb.org](mailto:constitutionreview@iasb.org)

Ref. FRP/HvD/SS/SR

Dear Mr. Zalm,

**Re: Review of the Constitution: Identifying Issues for Part 2 of the Review**

- (1) FEE (the Federation of European Accountants) welcomes the opportunity to comment on the Review of the Constitution: Identifying issues for Part 2 of the Review. FEE also wishes to reiterate a number of the views expressed at earlier occasions, including the meeting with you and some other Trustees of 22 January 2008. In addition, we offer some additional observations based on further discussions within FEE regarding the experiences gained during the past six months of the financial crisis and the related financial reporting impact including the due process in relation to the recent amendments to the financial instruments standards. We address the specific questions raised by the Trustees and we wish to signal that we offer the above-mentioned general comments in the response to question 14.
- (2) Our main observations are the following:
  - Focus should remain on the needs of capital market participants which require a performance oriented view: the objective of financial statements is to provide information that is useful to a wide range of users in making economic decisions, with priority given to the needs of providers of debt and equity capital (Questions 1 and 5);
  - Financial stability objectives are important but should be separately addressed. The financial reporting role in financial stability is to provide and in the current circumstances restore market confidence by providing transparency and a true and fair view on financial performance and position (Question 5);

- Strengthening the organisation for the future is important:
  - The organisation should be accountable but independent
  - Working closely with the FSF and IOSCO and other stakeholders
  - Establishment of the Monitoring Board is welcomed by FEE
  - Reducing complexity aiming and clear and comprehensible standards (Question 5);
- The IASB work programme and agenda, its priorities and convergence priorities should be extensively debated and should include the involvement of all major stakeholders (Question 9).

### Objectives of the organisation

**Question 1** *The Constitution defines the organisation's primary objective in the following manner: "to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions."*

*In fulfilling that objective, the organisation is "to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies".*

*Does the emphasis on helping 'participants in the world's capital markets and other users make economic decisions', with consideration of 'the special needs of small and medium-sized entities and emerging economies', remain appropriate?*

- (3) We are of the opinion that the primary focus should remain on the needs of capital market participants. Shareholders and investors require a performance oriented view: the objective of financial statements is to provide information that is useful to a wide range of users in making economic decisions, with priority given to the needs of providers of debt and equity capital. Transparency is of the financial performance is the key objective of financial reporting.
- (4) We furthermore believe that the Constitution should be aligned with the new Conceptual Framework which has dual objectives: economic decision-making and stewardship. The Constitution should therefore also address stewardship in its objective since stewardship is a basic characteristic of accounting and financial reporting. Accountability of management is important for users and existing shareholders to take decisions about the ability of management to generate economic value. It has been the main reason for producing financial statements in Europe. For SME reporting, the objective of stewardship is even more important than the predictive value of reporting.
- (5) The Constitution in our view should also address SMEs even though the main focus remains on listed and large companies. We would therefore have preferred if the text in section 2(a) had been generalised, so that it would also have been made relevant for use by SMEs. It is unclear to us what is meant by "taking account of, as appropriate". We believe that it is the role of the Trustees to set the overall objectives of the organisation (IASCF) and include therein the requirement for the IASB to prepare and issue accounting standards which are suitable for SMEs. In this regard the IASB should give adequate attention to accounting for SMEs in its work plan.
- (6) In addition we believe that the SME issue and the emerging economies issues are two separate issues which are not linked. This should be clarified.

**Question 2** *In the opinion of the Trustees, the commitment to drafting standards based upon clear principles remains vitally important and should be enshrined in the Constitution. Should the Constitution make specific reference to the emphasis on a principle-based approach?*

- (7) We are strongly committed to high quality, global and principle-based financial reporting standards. We support the objective of creating a single set of global standards, since global standards will meet the wider objectives of financial stability, efficiency and transparency and provide the benefits of increasing confidence in financial markets and of facilitating global investments, thereby reducing the cost of capital. Global financial markets require financial information prepared in accordance with global standards for reasons of competitiveness and comparability and for capital raising purposes.
- (8) We welcome the expressed commitment by both the IASB and the IASCF for principle-based standards. Therefore we strongly support a specific reference to the principle-based approach in the Constitution. This could be achieved by changing paragraph 2(a) of the Constitution to refer to “high quality, *principles-based*, understandable and enforceable global accounting standards”. In addition a similar reference may need to be included in the Framework. We believe the IASB should determine and set out the main attributes of principle-based standards. This would add to the credibility of the accounting standards as well as the IASB 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.
- (9) 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 in a predictable way. 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.

**Question 3** *The Constitution and the IASB’s Framework place priority on developing financial reporting standards for listed companies. During the previous review of the Constitution some commentators recommended that the IASB should develop financial reporting standards for not-for-profit entities and the public sector. The Trustees and the IASB have limited their focus primarily to financial reporting by private sector companies, partly because of the need to set clear priorities in the early years of the organisation. The Trustees would appreciate views on this point and indeed whether the IASB should extend its remit beyond the current focus of the organisation.*

- (10) Although there may be some logic to bring all financial reporting standard setting activities under one umbrella in the longer term by transferring the IPSASB out of the IFAC structure into the IASCF structure (in all circumstances there should be a separate Board for public sector issues), we are of the opinion that in the near future this is neither feasible nor desirable given the current workload priorities of the IASB. We recognise the importance of international standards for public sector accounting and welcome the close cooperation between the IPSASB and the IASB.
- (11) The current workload of the IASB in our view does also not allow for widening the scope of standard setting to not-for-profit entities.

- (12) There is a danger that it would detract from the Board's ability to achieve its objectives pertaining to its current focus which is primarily on financial reporting by private sector companies if it develops standards for not-for-profit entities and the public sector.

**Question 4** *There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognises the need to have close collaboration with accounting standard-setting bodies. Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives?*

*If so, should there be any defined limitations?*

- (13) IFRS are used all around the world and the IASB has to enhance and establish relationships with all major players in the accounting standard setting process and in accounting research across the world. For example, Europe is a significant user of IFRS. It is therefore of crucial importance that Europe is sufficiently involved, heard and understood in the accounting standard setting process of the IASB. We recognise the need for a European think tank, providing input at an early stage of the international accounting debate. Europe, notably through EFRAG – of which FEE is one of the founding fathers – has organised itself in such way, in particular with the recently published enhancement, that it can make a valuable contribution to the international standard setting process. This will also require however, that the IASB will afford EFRAG appropriate recognition and support a stronger relationship with EFRAG even though it is not - and does not want to be - a standard setter itself. The Constitution therefore needs to allow for this kind of relationships and involvement with organisations that share the same objectives as the IASB. The memorandums of understanding with organisations concluded in the past may have to be reviewed and revised in order to take into account the current circumstances and context that have changed over the last few years.
- (14) EFRAG could be of considerable assistance to IASB by helping to provide a technical platform and facilitate the IASB's interface with the political authorities in Europe. In order to play this role, consideration could be given to grant EFRAG a closer relationship with the IASB, including direct involvement in convergence projects and observer status at IFRIC.
- (15) We are also of the opinion that IASB should work more formally and closely with specialised organisations, which provide interfaces with financial statements, for example in the form of valuation or measurement information. This means that the IASB will need to recognise and set up properly structured and transparent procedures to secure cooperation with other recognised specialist standard setters.
- (16) Furthermore following our response to Question 3 the IASB should have a very strong collaboration with the IFAC IPSASB both at Board and at staff level.
- (17) However, we believe that the Constitution should ensure that close collaboration with accounting standard-setting bodies and other organisations does not lead to a situation where a single accounting standard-setting body or a single organisation dominates the due process of the IASB. Instead, especially all those countries who have actually adopted IFRS should be in the position to contribute their experiences in the course of the due process.

## Governance of the organisation

**Question 5** *The first part of the review of the Constitution proposed the establishment a formal link to a Monitoring Group. Under this arrangement, the governance of the organisation would still primarily rest with the Trustees. Although the first part of the review has not yet been completed, the Trustees would welcome views on whether the language of Section 3 should be modified to reflect more accurately the creation of the Monitoring Group and its proposed role.*

- (18) In our earlier statements, we have underlined the importance of robust oversight and accountability arrangements to ensure global acceptance of IFRS, including Europe. The fact that, in Europe, IFRS has become part of the legal framework through the endorsement mechanism, adds a political dimension to the process of oversight and accountability. Consequently, the accountability of the IASB is of key importance, with a focus on appropriate democratic oversight and improved transparency. We agree that the recent creation of a link between the Trustees and the Monitoring Board is a necessary, as well as appropriate, measure to establish such democratic oversight and to enhance the credibility of both the IASCF and the IASB. We note that a description of the Monitoring Board is included in the 1 February 2009 version of the Constitution (para. 18 to 23). The Constitution should in our view however emphasize that the governance of the IASCF shall continue to rest with the Trustees. The Monitoring Board should be limited to exercising oversight over the governance of the IASCF. This should not include the right to participate in or exercise influence over the workplan and technical activities of the IASB.
- (19) FEE believes that accounting standards should continue to focus on the primary objective of meeting the needs of capital market users. Macro-economic objectives, including financial stability should be achieved by other means such as macro-economic policy and regulatory actions. Continued cooperation between the IASB and global regulatory networks such as IOSCO and FSF are important. We support the IASB in the efforts to maintain and enhance there relationships by participating actively in the FSF and IOSCO accounting related activities. We are strongly of the view that technical accounting standard setting should remain independent and not be politically influenced. Standard setting has become of greater interest to public policy makers and regulators as a result of wider international adoption of IFRS and the financial and economic crises. The creation of the Monitoring Board provides a mechanism to achieve appropriate accountability as described above.

## Trustees

**Question 6** *The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?*

- (20) Our major concern in relation to the appointment of Trustees was the system of self-appointment. However, our concerns appear to be largely solved by the involvement of the Monitoring Board. We also believe that the geographical distribution of the Trustees is important. We consider that the current and prospective committed users of IFRS (preparers, users and other stakeholders) both in geographical terms and economic weight must be properly reflected in the appointment of the Trustees.

**Question 7** *Sections 13 and 15 set out the responsibilities of the Trustees. The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation—the fundamental operating principle of the organisation. In addition to these constitutional provisions, the Trustees have taken steps to enhance their oversight function over the IASB and other IASC Foundation activities. The Trustees would welcome comments on Sections 13 and 15, and more generally on the effectiveness of their oversight activities.*

- (21) We are broadly satisfied with the Trustees' role and oversight responsibilities as set out in the Constitution. However, the way the Trustees carry out these responsibilities should reflect changing times: the role and responsibilities have changed from the setting up of IASB and getting the standards internationally recognised towards monitoring and oversight. The Trustees' activities should evolve accordingly. One example is the role of the Trustees in relation to agenda setting as discussed in detail in our response to Question 9.
- (22) In this respect we underline that Section 15 (c) includes "the consideration, but not determination, of the IASB's agenda". We want to draw your attention to our requests in earlier submissions in relation to the IASB work plan and refer to our answer to Question 9.

**Question 8** *The Trustees are responsible for ensuring the financing of the IASC Foundation and the IASB. Since the completion of the previous review of the Constitution, the Trustees have made progress towards the establishment of a broad-based funding system that helps to ensure the independence and sustainability of the standard-setting process. (For an update on the funding status, see*

*<http://www.iasb.org/About+Us/About+the+IASC+Foundation/Funding.htm>).*

*However, the Trustees have no authority to impose a funding system on users of IFRSs. The Trustees would welcome comments on the progress and the future of the organisation's financing.*

- (23) We welcome the EC Proposal for a Decision of the EP and Council on establishing a Community Programme to support specific activities in the field of financial services, financial reporting and auditing. These proposals cover inter alia IASCF and EFRAG.
- (24) The funding of the IASB and IASCF should be structured in such a way that it is sustainable so that the IASCF can commit to long term projects and that the funding process and structure do not jeopardise the independence of the standard setting process.
- (25) Independent financing is important for the IASCF and the IASB. Accountability and funding are also mile stones of the SEC Roadmap. A secure and stable funding mechanism that permits the IASB to function independently is as important for Europe as for the US. We believe that the fundraising role should remain with the Trustees and not be transferred to another form of oversight or to the Monitoring Board.

## International Accounting Standards Board

**Question 9** *Commentators have raised issues related to the IASB's agenda-setting process. The Constitution gives the IASB 'full discretion in developing and pursuing its technical agenda'. The Trustees have regularly reaffirmed that position as an essential element of preserving the independence of the standard-setting process. However, they would welcome views on the IASB's agenda-setting process and would appreciate it if, in setting out views, respondents would discuss any potential impact on the IASB's independence.*

- (26) We refer you to our requests in earlier submissions in relation to the IASB work plan. We believe that the IASCF should submit the IASB workplan to an annual public consultation process. Better defined procedures need 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 may help to address the problem of current heavy agenda (we note the 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, should be carried out to demonstrate that there is a genuine need for a new or revised standard in areas not already covered by an existing standard or interpretation. We consider that this may now be at the right point in time to launch such a public consultation given the clear need for the IASB to reconsider its priorities. We would be pleased to contribute with our views on priorities in such a consultation.
- (27) Furthermore we believe that the re-constitution of the Standards Advisory Council (SAC) provides an opportunity to improve the effectiveness of the SAC in particular related to the role the SAC can play in the workplan and priorities in the IASB agenda.
- (28) We also wish to suggest that the IASB considers the implications of the financial and economic crisis and the increasing demands regarding financial reporting that this has put on preparers, as well as auditors and others, when considering the issuance of discussion papers on conceptual issues. This includes those relating to financial statements presentation and revenue recognition. In order to allow all stakeholders to engage in the debate on the fundamental conceptual issues, the timing of the launch of such discussion papers could be improved. It would moreover be helpful if the deadlines for already issued papers could be extended in order to give all stakeholders, also in the current circumstances, the opportunity to extensively debate the issues and to provide comments.
- (29) Even if a public consultation process on the IASB workplan/agenda were in place, major events, such as the current financial and economic crises, may arise and require a reconsideration of priorities and timing of current and already planned projects. In our collective letter with several other European organisations of 18 March 2008, we already called on the IASCF and the IASB to reconsider the short timeframe within which changes are introduced, notably in relation to relatively new or recently revised standards. Frequent changes lead to undue complexity, uncertainty and costs in practice.
- (30) We are also of the opinion that convergence has been important providing it leads to better high quality standards. However, convergence should not be the only factor driving the work plan and the related priorities in the future. A proper balance need to be struck with the speed and nature of the changes, in particular where current standards are not perceived as being flawed. We note the freeze period of 2011 announced for the application of IFRS, but are concerned that this could lead to an acceleration of amendments to the standards before that date.

- (31) We wish to emphasise that the IASB should give priority to moving forward on the financial instruments project given the current economic and financial crisis.

**Question 10** *The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the IASB Due Process Handbook. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the procedures require too much time, what part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the IASB Due Process Handbook*

- (32) We welcome the introduction of feedback statements and believe these have increased transparency but we emphasise that the Board should have an obligation to seriously reconsider a draft standard where 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. We call for greater oversight by the Trustees on this aspect of the IASB's work.
- (33) We wish to refer to our earlier concerns that situations have arisen in the past, where a clear majority of major categories of commentators expressed serious concerns about a proposed standard but it appears that their comments were rejected on the basis that they raised no new arguments and had already been considered by the IASB during the development of the proposed standard. Examples of such situations are the 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 at all stages of the standard setting process should, in itself, oblige the Board to discuss the concerns again and to reconsider the impact assessment and needs analysis in order to determine whether all practical implications have been appropriately considered.
- (34) Pursuant to paragraph 31(f) of the Constitution, the Board need only consider undertaking field tests. According to the "comply or explain" requirement of paragraph 31(g) the Board would need to give reasons when it did not carry out field tests for a certain standard. However, we consider it highly desirable that field tests be made compulsory for those proposed standards and interpretations which are presumed to result in significant changes to accounting practice, or have been subject to controversial discussions during the standard setting process. In such cases the performance of field tests should not be at the discretion of the Board. This would help the Board to pre-empt contentions that the Board's standards are too theoretical.
- (35) In some cases, we have concerns whether the procedures in respect of a re-exposure of standards and interpretations are appropriate. As mentioned before a proper due process is fundamental for the legitimacy and credibility of the IASB. There have been cases of the IASB making significant changes to its original proposals and not exposing its revised proposals for comment. In the past the Board sometimes has based its decision whether or not to re-expose on expediency. We propose that the Trustees consider developing a means of challenging the re-exposure/non re-exposure decisions of the IASB, and requiring the IASB to follow an explicit process, including explaining the basis for its judgement that re-exposure is not necessary in cases where significant changes have been made. The Trustees would need to see that the process has been properly followed, including that the IASB's arguments are well founded.

**Question 11** *Should a separate ‘fast track’ procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a ‘fast track’ procedure?*

- (36) We note that amendments to IAS 39 and IFRS 7 published by IASB on 13 October 2008 were a necessary step in the process of restoring a level playing field and creating confidence in financial markets. We accept that the omission of the due process was necessary given the critical circumstances of the financial crisis. However, any further amendments to IFRS – resulting from the crisis or otherwise should be given full consideration as to their implications and potential unintended consequences and be subject to an appropriate due process. This may be shortened if circumstances so require. The ED of proposed amendments to IFRS 7 *Financial Instruments: Disclosures “Investments in Debt Instruments”* is an example of an ED where we believe the due process has been wrongly shortened to 23 days. This proposal concerns an important subject that needs more fundamental discussion by stakeholders around the world than is at present the case in the ED.
- (37) The Constitution could include a ‘fast track’ procedure to be used in rare circumstances, respecting an appropriate minimum due process, and the use of the ‘fast track’ procedure being subject to approval of the Trustees and SAC. This minimum due process should be described and should include a minimum consultation period. The IASB Due Process Handbook should include express provisions for the use of a shortened due process, including circumstances surrounding its application and approval of the use of the ‘fast track’ procedure in order to avoid any inappropriate use of this procedure. We suggest that those circumstances be limited to issues of wide concern amongst the community of IFRS stakeholders.

### **Standards Advisory Council**

**Question 12** *Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?*

**Question 13** *Attached to this discussion document are the terms of reference for the SAC, which describe the procedures in greater detail. Are there elements of the terms of reference that should be changed?*

- (38) We welcome the re-constitution of the SAC, and hope that the representation model will result in a more effective mechanism and improved communication of the SAC. This will assist the IASB in being better informed about the needs of preparers, users and other stakeholders (see also our response to Question 9).
- (39) The Trustees should monitor the performance of the SAC in order to determine whether it now fulfils its intended function and role following its recent reorganisation.

## Other issues

**Question 14** *Should the Trustees consider any other issues as part of this stage of their review of the Constitution?*

- (40) As the business environment in which we operate today has grown increasingly complex, it is unavoidable that accounting standards also reflect in their requirements the increasing complexity of many business transactions, which in turn may result in more complex financial statements. The IASB should continue to ensure that its (proposed) standards are clear and comprehensible, as well as capable of being implemented and audited in a practical manner.
- (41) We believe that changes to the standards should be made only when they result in a more faithful representation of economic reality, in better presentation and/ or increased transparency. A proper balance needs also to be struck between the goal of improving financial reporting and the ability of preparers, auditors and, importantly, users of accounts, to be able to produce, audit and interpret the resulting financial information in a meaningful way. When standards become too conceptually purist, rules-based and complex, the financial statements prepared on the basis of these standards are no longer understood by management and as a result no longer considered relevant for internal management purposes. The result of this would be that financial reporting would become a compliance exercise, rather than a tool for internal and external decision-making. This would be highly undesirable.
- (42) To avoid such a situation, it is important that standard- setters find the appropriate balance between the ideal academic solutions and practical standards that limit complexity to the necessary minimum. The Trustees have an important role to play in setting guidance for criteria to be considered in the cost-benefit analysis before new standards projects are added to the agenda.
- (43) The costs associated with educating preparers and users in application and understanding of existing and proposed accounting standards, as well as keeping such knowledge current are increasing dramatically. In addition there are the costs and risks associated with frequent substantial system changes resulting in many cases from changes in the application of accounting standards. 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 that there will be a certain amount of continuity of current standards. Adequate time should be allowed for the implementation of standards in Europe and elsewhere. More time should be allowed for adequate field testing of new proposed standards and major proposed changes to standards; this would enhance both the practicability and quality of the standards.
- (44) FEE supports the principle of seeking convergence, providing that this leads to the highest quality accounting solutions. Convergence may start with a careful analysis and selection of the best and most recent thinking under IFRS, US or any other national GAAPs where relevant. The development of the best accounting standards should however not be limited to the selection of thinking under existing standards. Where necessary and relevant the process should include new solutions and new thinking and the willingness of all involved to enter into new domains resulting in improved high quality accounting standards.
- (45) As indicated in our letters of 12 June 2007 and 24 October 2008, FEE attaches high importance to prioritising the Conceptual Framework discussions and the discussions on Fair Value Measurement.

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

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans van Damme', written over a horizontal line.

Hans van Damme  
President