

“SHAPING IASC FOR THE FUTURE”*Discussion Paper by the IASC Strategy Working Party***UNICE COMMENTS**

UNICE, the Union of Industrial and Employers' Confederations of Europe, has examined the Discussion Paper, “Shaping IASC for the Future”, issued by IASC's Strategy Working Party and is pleased to respond to the IASC's invitation to comment on this document.

UNICE fully understands the Working Party's view that IASC must consider structural changes so that it can continue to meet the need for high-quality, transparent and comparable information. This will help participants in capital markets and others to make economic decisions. If IASC fails to meet this need, other bodies – whether national, regional or international – are likely to emerge to fill the gap and become *de facto* global or regional standard setters.

UNICE believes that the establishment of a quality international accounting standard-setting structure and due process are key to the success of International Accounting Standards and it supports IASC as the most prominent organisation to develop and maintain International Accounting Standards.

UNICE also supports the Strategy Working Party's ideas to promote the use of International Accounting Standards by working with national standard setters. However, UNICE has some comments on the proposed structure, which it will discuss in detail below, as it gives its response to the questions raised in the invitation to comment.

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OBJECTIVES

Question 1.

Do you agree that it is important to focus IASC's objectives more precisely as follows:

- (a) to develop International Accounting Standards that require high-quality, transparent and comparable information which will help participants in capital markets and others to make economic decisions; and*
- (b) to promote the use of International Accounting Standards by working with national standard setters to:*
 - (i) bring about convergence, for listed enterprises (i.e. enterprises with publicly traded equity or debt securities) and other economically significant enterprises, between national accounting standards and International Accounting Standards; and*
 - (ii) encourage national, regional and international authorities to permit or require unlisted enterprises that, individually, are not economically significant to use those International Accounting Standards if those Standards meet the needs of the users of the financial statements of such enterprises.*

These proposed comments should be read in the light of the Working Party's comments on the focus of IASC's work. Do you have any comments on the focus of IASC's work? (see paragraphs 28-70).

UNICE RESPONSE:

It is important to focus IASC's objectives more precisely, as described under question 1.

If IASC wants to become *the* organisation to develop and maintain the comprehensive set of international accounting standards, then it should, in UNICE's view, increase acceptance of these standards throughout the world. UNICE believes that the only way this goal can be reached is by involving in the standard-setting process representatives of all parties concerned.

It is therefore not logical that the decision-making bodies should be dominated by the accountancy profession. In UNICE's view the above-mentioned objectives can only be met if the procedures for appointing organisations and individuals to decision-making bodies within IASC are changed. This means that representatives of preparers, users and of the accountancy profession should have an equal say in the new structure of the international standard-setting process.

UNICE also believes that equal voting rights are key to success regarding funding. Participants will be prepared to pay their share if they are involved in the whole standard-setting process. In addition, it is important to avoid that votes could be influenced by the source or amount sponsored. A structure in which all representatives are involved on an equal footing would therefore be preferred to one which presents the features of a governmental body.

In the Section dealing with "A possible future structure for IASC", the Strategy Working Party spells out several criteria for membership of the Standard Development Committee (SDC) (paragraph 128). In UNICE's view, it is far more important that members of the SDC be individuals from countries with well-developed capital markets (such as those mentioned in appendix 5), than it is to ensure a reasonable geographical spread of membership. UNICE also believes that members of the SDC should be individuals with a wide experience in business and an academic background.

In addition, members should come from countries with historical experience in standard-setting, an experience that will be of direct benefit to the IAS. It is also important that they have proven their

capability in their own country, for example in the field of accounting research, or by previous participation in IASC projects. The members have to be involved in the national standard-setting process. Only then can they be expected to make an active contribution to IASC's work.

STRUCTURE OF IASC - KEY ISSUES

Question 2.

The Working Party has identified the following key issues that must be addressed to give IASC a structure that will enable it to continue meeting its objectives:

- (a) partnership with national standard setters - IASC should enter into a partnership with national standard setters so that IASC can work together with them to accelerate convergence between national standards and International Accounting Standards around solutions requiring high-quality, transparent and comparable information that will help participants in capital markets and others to make economic decisions;*
- (b) wider participation in the IASC Board - a wider group of countries and organisations should take part in the IASC Board, without diluting the quality of the Board's work; and*
- (c) appointment - the process for appointments to the IASC Board and key IASC committees should be the responsibility of a variety of constituencies, while ensuring that those appointed are competent, independent and objective.*

Do you agree that these are the key issues to be addressed in developing an effective structure for IASC? (see paragraphs 112-123). The Working Party's proposals for improving IASC's due process are discussed separately below (see Question 6).

UNICE RESPONSE:

- (a) UNICE agrees that IASC should enter in a partnership with national standard setters. In the proposed new structure, the Steering Committees would be replaced by the SDC and the SDC would be supported by a Standards Development Advisory Committee. UNICE believes that the total number of national standard setters involved in the SDC should be as much as possible while remaining workable. This is a prerequisite for IAS to be accepted throughout the world.*
- (b) UNICE would encourage wider participation in the IASC Board in order to foster broader acceptance throughout the world. In the proposed structure the total number of Board members will be 25 (20 country seats for professional accountancy bodies and 5 seats for other organisations). As indicated in its response to question 1, UNICE believes that membership of the Board should consist of a balanced representation of preparers, users and professional accountancy bodies. This is absolutely essential if harmonisation of international accounting standards is to become a reality.*
- (c) UNICE also agrees that the process for appointments should be the responsibility of a variety of constituencies and not only through the accountancy profession (IFAC). As long as the appointments are in the hands of the accountancy profession, preparers and users will feel under-represented. It is therefore necessary to ensure that all parties concerned have an equal vote in appointing Board members.*

STRUCTURE OF IASC - ADDRESSING THE KEY ISSUES

Question 3.

The Working Party's proposals address these key issues by the following changes:

- (a) *a partnership with national standard setters:*
- (i) *Steering Committees would be replaced by a Standards Development Committee, on which national standard setters would play a major role in developing International Accounting Standards. The Standards Development Committee would also be responsible for approving the publication of final SIC Interpretations prepared by the Standing Interpretations Committee; and*
 - (ii) *the Standards Development Committee would be supported by a Standards Development Advisory Committee, which would act as a channel of communication with those national standard setters unable to participate directly in the Standards Development Committee because of its limited size;*
- (b) *wider participation in the IASC Board - the Board would have a wider membership than at present. The Board would still be responsible for the final approval of International Accounting Standards and Exposure Drafts; and*
- (c) *appointment - the Advisory Council would be replaced by Trustees. Among other things, the Trustees would appoint members of the Standards Development Committee, the Board and the Standing Interpretations Committee. The Trustees would also have responsibility for monitoring IASC's effectiveness and for finance.*

These proposals are set out in paragraphs 124-200 summarised in Tables 1 and 2 in the Executive Summary and in Figures 1 and 2 in the Executive Summary.

Do you support the Working Party's proposals? Should any changes be made to these proposals? Should the Working Party consider any other ways of meeting the needs identified above? If commentators put forward other proposals, the Working Party would like them to explain how their proposals satisfy the objectives identified by the Working Party.

UNICE RESPONSE:

- (a)(i) UNICE supports the Working Party's proposals to replace the Steering Committees by a Standards Development Committee (SDC) on which national standard setters would play a major role. It does not, however, agree with the total number of SDC members (11 in total) and suggests to increase that number. The total number of participants must be workable, for example 20. UNICE believes that wider participation of national standard setters in this part of the structure is essential for the development of International Accounting Standards and their acceptance by national standard setters (see also comments under question 1 regarding membership of the SDC).
- (a)(ii) Those national standard setters who are unable to participate directly in the SDC should be given the opportunity to participate in the Standard Development Advisory Committee. According to the Strategy Working Party, the Standard Development Advisory Committee should meet at least annually under the chairmanship of the Chairman of the SDC. UNICE believes that this structure will not work effectively and efficiently. It will not be sufficient to satisfy those standard setters that are actively involved in standard setting (domestically) and not represented in the SDC. In UNICE's opinion, if the total number of participants in the SDC is going to be increased there will be no need for a Standard Development Advisory Committee. The national standard setters not participating in the SDC will have the opportunity to provide direct input through an open due process, and this input will be considered by the SDC. UNICE believes that this structure will work as effectively and efficiently as with a Standard Development Advisory Committee. It will certainly make the structure of IASC much simpler and far more transparent.
- (b) As mentioned in its response to question 2, UNICE supports wider participation in the Board. It also agrees that the Board should still be responsible for final approval of International Accounting Standards and Exposure Drafts, and believes that wider membership will satisfy the objectives identified.

- (c) UNICE supports the proposals set forth in this paragraph and agrees that the Trustees would appoint members of the SDC, the Board and the SIC. However, it would like to stress once more that IAS will gain worldwide acceptance only if the Trustees are a balanced representation of preparers, users and the accountancy profession.

APPROVAL OF INTERNATIONAL ACCOUNTING STANDARDS

Question 4.

The Working Party considered a range of different ways of specifying the respective powers of the Standards Development Committee and the Board. Among these were:

- (a) positive approval required by a majority or super-majority of the Board for all International Accounting Standards and Exposure Drafts;*
- (b) the Board (or perhaps a specified majority or a specified minority of the Board) has the power to reject proposed International Accounting Standards and Exposure Drafts;*
- (c) the Board (or perhaps a specified majority or a specified minority of the Board) has the power to return proposed International Accounting Standards and Exposure Drafts to the Standards Development Committee for re-consideration, but not to reject them indefinitely; and*
- (d) the Standards Development Committee must consult the Board, but the Board has no power to delay or reject International Accounting Standards or Exposure Drafts.*

Individual members of the Working Party have preferences for different points in this range. Some members of the Working Party prefer option (a) above. Other members of the Working Party prefer option (d) above. However, the Working Party believes that the precise voting arrangements are less important than the need for the Standards Development Committee and the Board to work together constructively.

The Working Party believes that a constructive attitude of close and effective co-operation is a striking feature of the current Board and of IASC's Committees. Consequently, the Working Party is confident that the Standards Development Committee and the Board will achieve the close and effective relationship that will be needed.

The Working Party proposes that the publication of a Standard or Exposure Draft should require approval by 60% of the Board (15 votes out of 25). At present, an Exposure Draft requires a positive vote by two thirds of the Board; a final Standard requires a positive vote by three quarters of the Board. The Working Party further concluded that the Chairman of the Board should be required to ensure that the Board considers and votes on proposed Exposure Drafts and Standards submitted by the Standards Development Committee within three months of receipt or, if later, at its next meeting.

If the Board rejects a proposed Exposure Draft or Standard, the Board should send the document back to the Standards Development Committee for further consideration, giving public reasons for its rejection. After considering the reasons given by the Board, the Standards Development Committee may decide to:

- (a) prepare a revised proposal and submit it to the Board for approval in the normal way; or*
- (b) resubmit its original proposal to the Board:*
 - (i) if nine or more members of the Standards Development Committee have voted to resubmit the same proposal, Board approval should require a simple majority (13 votes out of 25); and*
 - (ii) if seven or eight members of the Standards Development Committee have voted to resubmit the proposal, the proposal should be treated in the same way as a new proposal. In other words, Board approval should require the normal 60% majority (i.e. 15 votes out of 25).*

At present, each delegation has one vote. This means that Board delegations are sometimes forced to abstain where the members of the delegation are unable to agree among themselves. Given the current requirement for a positive vote by three quarters of the Board, an abstention is effectively the same as a vote against a Standard. This might suggest that each member of the delegation should be given an individual vote, to reduce the risk of deadlock. However, discussions among, say, 50 voting individuals would be much more cumbersome than discussions among 50 individuals representing 25 voting delegations. The Working Party recommends that IASC should retain the current practice that each delegation has one vote.

The Working Party believes that the Board should not have the power to amend proposed Exposure Drafts and Standards submitted by the Standards Development Committee. The Working Party believes that these proposals will ensure reasonably widespread acceptance for IASC's work, without undue risk of paralysing the work of the Standards Development Committee. This will also give genuine decision-making power to both bodies.

Do you support this proposal (see paragraphs 164-178)?

Under the Working Party's proposal, positive approval by the Board would still be required for all International Accounting Standards and Exposure Drafts. Do you agree that such Board approval should be required? Or do you believe that the Board should have no power to delay or reject Standards or Drafts?

If you do not support the proposal set out in paragraphs 164-178, please indicate what changes should be made and explain how your proposal will address the following three crucial considerations:

- (a) the need to convince users, preparers and IASC's other constituents that IASC's standards will meet their needs;*
- (b) the need to attract suitably qualified individuals to serve on the Standards Development Committee and the Board; and*
- (c) the need for the Standards Development Committee and the Board to work together closely and effectively for the public interest.*

UNICE RESPONSE:

UNICE agrees that the Board should have the power to return proposed International Accounting Standards and Exposure Drafts to the SDC. The Board must be responsible for final approval of International Accounting Standards and Exposure Drafts.

In UNICE's view the Board should have the power to amend proposed Exposure Drafts and Standards submitted by the SDC. If the Board had no such power it would be remarkably powerless and it is unlikely that talented and well-qualified individuals would be willing to serve on such a Board.

UNICE believes that the current structure for approval should be retained and that final approval of an Exposure Draft or Standard should require approval by two thirds of the Board or by three quarters of the Board respectively. This is seen as necessary to avoid undue domination by those countries represented in the SDC and in the Board. In UNICE's view, IASC should avoid situations where the IAS can be developed and approved by a small group of countries. UNICE therefore supports the requirement of positive approval by a majority or super-majority of the Board for all IAS. If the required approval were to be declined, the influence of the other organisations not represented in both the SDC and the Board would be inferior and there is a possibility that these countries might be dissatisfied with the results. This would certainly have a negative impact on one of the IASC's objectives: to bring about convergence between national and International Accounting Standards.

If the Board rejects a proposed Exposure Draft or Standard and the SDC prepares a revised proposal UNICE believes it should require approval of the Board in the normal way. In UNICE's view, approval thresholds should not be lowered: a two-thirds majority for Exposure Drafts and a 75% majority for Standards should be retained.

Finally, UNICE supports the recommendation that each delegation should retain one vote.

APPROVAL OF SIC INTERPRETATIONS

Question 5.

At present, Board approval is required for a final Interpretation. Do you agree that:

- (a) *a SIC final Interpretation should require approval by the Standards Development Committee, and that approval by the Board should no longer be required; and*
- (b) *the approval of a final Interpretation should require the same majority in the Standards Development Committee as a decision to submit an Exposure Draft or Standard to the Board for approval (seven votes out of 11)? Should any other changes be made to the structure or operations of the SIC (see paragraphs 96-99 and paragraphs 184-189)?*

UNICE RESPONSE:

UNICE does not agree that a SIC final Interpretation should require approval by the SDC and that approval by the Board is no longer required. The Strategy Working Party believes that approval by the SDC minimises delay in issuing Interpretations. UNICE fails to understand why this should not be the case when approval of Interpretations rests with the Board.

When the SIC submits final Interpretations to the Board for approval, it should, in UNICE's view, also send a copy to the SDC so that this committee can comment to the Board before the final Interpretation is approved.

UNICE agrees that a final Interpretation should require the same majority in the Board as a decision to submit an Exposure Draft or Standard.

DUE PROCESS

Question 6.

Should any changes be made to IASC's due process (see paragraphs 108-110 and paragraphs 201-214)? In particular, should IASC:

- (a) *open all discussions of the proposed Standards Development Committee, Standing Interpretations Committee and Board on technical issues to the public;*
- (b) *open portions of Trustees' meetings to the public, at the discretion of the Trustees;*
- (c) *make more use of new technology, such as the Internet, the web site, and electronic observation of open meetings;*
- (d) *publish in advance the agendas for each meeting of the Standards Development Committee, Standing Interpretations Committee, Board and Trustees and publish promptly the decisions made at those meetings (IASC currently publishes the agenda for Board meetings in its quarterly newsletter, Insight, and on its web site. IASC also publishes Board decisions immediately after each Board meeting in Update and SIC decisions in News from the SIC);*
- (e) *publish a Basis for Conclusions with its Standards;*
- (f) *publish with its Standards any dissentient opinions (i.e. statements explaining why one or more Board Members or members of the Standards Development Committee voted against the Standards);*
- (g) *hold public hearings for some or all projects (without a requirement to do so in every case);*
- (h) *carry out field tests of some or all of its proposals (without a requirement to do so in every case);*
- (i) *publish translations of International Accounting Standards (as well as other documents, such as Exposure Drafts);*
- (j) *ask Members of IASC, or others, to control the quality of those translations that IASC does not publish itself;*
- (k) *lengthen comment periods for Exposure Drafts and other documents;*
- (l) *distribute Exposure Drafts (and other documents issued for comment) without charge, if it is financially feasible to do so; or*
- (m) *make other changes to its due process (please specify these changes)?*

UNICE RESPONSE:

UNICE supports all the suggestions in paragraphs (a) to (l). In particular, it would like to stress that it supports the idea in paragraph (h) of carrying out field tests of some or all of its proposals. However, IASC should not carry out a worldwide field test only for some but for *all* of its material proposals. This would foster better understanding of the possible discrepancies between the theoretical and practical side of the proposals.

IMPLEMENTATION, ENFORCEMENT AND TRAINING

Question 7.

Should IASC:

- (a) *be more pro-active in reviewing national standards in order to assess whether those national standards result in compliance with International Accounting Standards;*
- (b) *give advice to national regulators and other enforcement agencies in their efforts to enforce national standards that comply with International Accounting Standards, but only if the regulator in question both:*
 - (i) *pays for the advice on a fully self-financing basis; and*
 - (ii) *gives IASC satisfactory indemnities against legal action by those who dispute alleged departures;*
- (c) *be more pro-active in identifying departures from International Accounting Standards and reporting those departures to national enforcement agencies, supranational bodies such as IOSCO or the Basle Committee, IFAC or IASC's own Member bodies;*
- (d) *publish training material, illustrative examples and other implementation guidance, such as staff bulletins;*
- (e) *introduce a technical enquiry service;*
- (f) *hold training courses (if you think that IASC should provide training, please specify whether such courses should be self-financing); or*
- (g) *do anything else to improve the implementation, enforcement and training of International Accounting Standards?*

These issues are discussed in paragraphs 215-220.

UNICE RESPONSE:

- (a) UNICE does not believe that IASC should be more pro-active in reviewing national standards in order to assess whether those national standards result in compliance with IAS. National standard setters have their own responsibility and companies should be given the choice of adopting either the IAS or the national standard whenever this choice is necessary. In addition, the standard-setting process and its enforcement should be kept separate and should not be implemented by the same body.
- (b) UNICE does not believe that IASC should give advice to national regulators and other enforcement agencies: this is a task for the Standing Interpretations Committee (SIC).
- (c) UNICE does not believe that IASC should be more pro-active in identifying departures from IAS. The auditor should explain in the auditors' report that the financial statements are in accordance with the IAS.
- (d) – (f) UNICE supports the suggested services listed in these sections though it would like to stress that it believes these services should be fully self-financing.

FUNDING

The Working Party recognises that funding is a vital issue and aims to develop a more detailed funding plan during the period for public comment on this Discussion Paper.

Question 8.

Should IASC make any changes to the way in which it is funded? (paragraphs 221-235)

Do you support a funding model that relies more or less equally on funding from a number of reasonably well-defined groups? If you support such a model, which groups should participate in the funding and on what basis? An example would be a model that looks to the accountancy profession, government and the business community to provide roughly equal proportions of IASC's funding.

Do you have any other suggestions for funding IASC?

UNICE RESPONSE:

UNICE agrees with the Strategy Working Party that a detailed funding plan must be prepared. UNICE would support a funding model that relies more or less equally on funding from a number of reasonably well-defined groups but considers that those parties gaining the greatest benefit from IASC's work should be an important source of funding.

UNICE is convinced that funding is connected with participation in the standards-setting process and that participants will be prepared to pay their share if they are involved in the process. In addition, it is important to avoid that votes could be influenced by the source or amount sponsored. Independent funding of the standard-setting process is essential. UNICE therefore supports the Strategy Working Party's proposal that fund-raising should be the responsibility of the Trustees (see also comments regarding question 1 above).
