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**UNICE COMMENTS ON
IASC FOUNDATION CONSTITUTION REVIEW****1. GENERAL COMMENTS**

Established in Brussels since 1958, UNICE, the representative of employers in Europe speaks for all companies – of all sizes and in all sectors of activity – vis-à-vis the institutions of the European Union (Council, Parliament, Commission and Economic and Social Committee). Its task is to ensure that the opinions, concerns and priorities shared by companies across Europe are heard, understood and supported.

UNICE has supported adoption of an accepted system of International Accounting rules, in order to create a level playing-field for companies operating internationally. UNICE looks for adoption of high-quality standards, applicable worldwide.

In this context, the process for adoption and revision of IFRS is paramount to UNICE. We therefore welcome very much the consultation launched by the Constitution Committee seeking public comments on the review of the IASC Constitution.

Based on its experience over the last couple of years, UNICE is not happy with the current governance rules of IASC. It is our perception that the voice of preparers is not heard by IASB in general and that communication with the Board is difficult.

UNICE has also been frustrated about the feedback received from IASB on the many detailed comments it has submitted. Very often, polite letters have been sent with no reasoning or answers to the points raised by preparers. Whilst we recognise that IASB may not be able to respond to individual submissions, it should respond to all substantive issues and arguments made in respondents' submissions in the Basis of Conclusions, and explain its reasoning in cases of disagreement.

In our view, the Board seems to be pursuing a number of theoretical perfections in its standards that are not demanded by either users or preparers. As a result, many of the standards adopted are too burdensome for business to comply with and do not respond adequately to preparers' concerns and users' needs.

In addition, UNICE is strongly of the opinion that the current process is too rapid. It gives commentators little time to review proposals or to enter into dialogue with the Board which, as mentioned before, is not responsive enough to preparers' views. UNICE would therefore like to take this opportunity to urge the Board to take into account the following comments in order to ensure that governance rules adequately meet the needs of users of the IFRS system.

2. DETAILED COMMENTS:

Consultation paper page 4, question paragraph no 2: Special challenges facing SMEs?

In order to address the special challenges facing SMEs and other unlisted entities, a specific objective should be to develop a set of high-quality, understandable global accounting standards that adequately balances the use of high-quality, transparent and comparable information with the administrative burden of preparing and providing such information. In this respect, we encourage IASB to develop a simplified body of IAS for smaller companies, as they move to report in accordance with IFRS in due course.

Consultation paper page 5, question paragraph no 4: Expanding the number of Trustees

UNICE sees no need to expand the number of Trustees. In our view the quality of their performance is more important than the number of Trustees. UNICE believes the standard-setting process is not operating satisfactorily because in practice we have experienced that IASB disregards practical concepts familiar to and accepted by preparers (as with the gradual imposition of fair value measurement and the asset/liability approach), an excessive emphasis is being placed on abuse prevention, which leads in many cases to a reduction in the quality of financial reporting, and the due process of the Board leaves preparers feeling considerable dissatisfaction. Therefore, the governance procedures of the IASB have to be changed to prevent the standard-setting process from continuing to be unsatisfactory.

Consultation paper page 5, question paragraph no 6: Trustees geographical distribution

UNICE agrees that the mix of Trustees should be a representation of the world's capital markets. Furthermore, we believe that capital markets which have adopted IAS/IFRS should have a larger representation than those which do not adopt IAS/IFRS. For example, the number of Trustees appointed from the EU, the largest capital market that has committed to adopting IAS/IFRS, should be larger than the number of Trustees from the US, the largest capital market that has not (yet) adopted IAS/IFRS.

Consultation paper page 6, question paragraph no 7 and 8: Backgrounds of Trustees

Regarding the Trustees' backgrounds, beside the eleven "at large" Trustees, there is no justification for five of the Trustees being nominated by the International Federation of Accountants and only three other Trustees being selected after consultation with international organisations of preparers, users and academics. In the interest of the standard-setting process, a more balanced representation of preparers is needed.

Consultation paper page 7, question paragraph no 14 and 16: Specific requirement for the Trustees to review strategy and procedure

UNICE believes that good governance involves a specific requirement for the Trustees, at intervals or even constantly, to review the strategy and the procedures of IASB and preferably also those of SAC.

Consultation paper page 8, question paragraph no 18: Review of the Constitution

Since, as mentioned above, good governance involves the requirement for periodic review, UNICE does not see any need to extend the period of review of the constitution from five to ten years.

Consultation paper page 8, question(s) paragraph no 19: Number and workload of IASB members

UNICE has no opinion on the number of IASB members. UNICE does not agree that part-time positions should be eliminated. Despite of the heavy workload a part-time position can be preferable to keep in touch with the practice of standards setting, for example in the preparation of financial statements. UNICE believes IASB members should have substantial time for consulting with interested parties, especially in those markets which have adopted IAS/IFRS.

Consultation paper page 9, question(s) paragraph no 22: Professional backgrounds of IASB members

UNICE is of the opinion the professional backgrounds of the IASB members should be more balanced in the sense that they represent the parties affected by the standard-setting process. This means that more members should have a background as preparers. In that respect it is hard to understand why a minimum of five members should have a background as practising auditors, especially since the International Federation of Accountants is an organisation of accountants (including management accountants) and not only of practising auditors. The representation of preparers should at least equal the representation of accountants.

Consultation paper page 9, question paragraph no 23: Special consideration to be given to liaison relationships

UNICE is of the opinion a formal liaison relationship with national standard setters is important for getting the desired convergence of accounting standards. However, regarding the "2005" deadline, a formal liaison with the EU – especially with EFRAG – is of the utmost importance. In that respect special consideration of liaison with emerging economies is important; though it has less priority than, for example, convergence with US-GAAP.

Consultation paper page 11, question paragraph no 32: Principles and elements of IASB's procedures

UNICE would like to emphasise the importance of the IASB's procedures and due process. The preliminary stage before the publication of an exposure draft is very important. At this stage discussion or consultation papers (like draft statements of principle) should be published in order to ensure sufficient public support of parties involved. UNICE welcomes broader research studies and field-testing to get more practical standards.

Consultation paper page 12, question regarding to IFRIC, paragraph no 37: Duties of IFRIC

Regarding IFRIC, UNICE's opinion is that the due process of IFRIC seems to be much too time-consuming. Interpretations on "emerging issues" should be published as soon as possible.

Consultation paper page 12, question paragraph no 40: SAC role, procedures and composition

UNICE is of the opinion that the role of the SAC is very important, especially in the process of consultation. We notice that the large number of SAC members leads to cumbersome and less effective meetings. A substantial number of the SAC members should have a professional background in preparing financial statements. Good governance calls for the chair of the SAC to be different from the IASB chair.

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