

28 February 2005

Erik Wong
Project Manager
IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

THE SECRETARY GENERAL

Dear Mr Wong,

RE: REVIEW OF THE IASCF CONSTITUTION: PROPOSALS FOR CHANGE

As the organisation representing the interest of European business, UNICE firmly supports 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 and its members. We therefore welcome very much the consultation on the review of the IASC Constitution on which UNICE has already had the opportunity to present a first set of comments in its response dated 9 February 2004.

The decisions made by the Board in its proposals to strengthen the Board's processes as well as some changes which are now brought forward in the draft of the revised Constitution of the IASCF are a step in the right direction and bring about some improvement. However, there are still a number of concerns expressed by UNICE and other respondents that remain inadequately addressed or answered.

Concerns remain on quite significant, if not the most significant, issues:

1- Topic 2 and 5: Geographical distribution

Geographical distribution criteria should give due weight and a larger representation to countries and capital markets which have adopted or accepted, or are about to adopt or accept, IFRS.

The explanation given for the rejection of this proposal is that the IASCF must remain a truly international body, and that bringing more emphasis from environments which have adopted or accepted IFRS would probably discourage other areas from adopting or accepting them.

We do not find these arguments convincing.

We did not suggest that capital markets that have not adopted or accepted IFRS should not be represented at all. Furthermore, mandates of Trustees and IASB and IFRIC members are of a duration fully compatible with the length of adoption or acceptance processes, so that an appropriate balance is ensured at all times. Moreover, in the interest of convergence that we support, IASB and FASB are developing more and more joint projects, so that US influence is increasing whereas it is deemed too great already. The bilateral relationship between the IASB and FASB has, in our view, de facto created a situation of geographical dominating interest.

We therefore reiterate our recommendation that geographical areas having adopted or in the process of adopting or having accepted IFRS are given a greater weight in the composition of the different bodies of the IASCF. Regional balance of Trustees and Board members should reflect commitment by countries/regions to applying IFRS.

2- Topic 5 and 9: The composition of the IASB and IFRIC

Criteria for IASB and IFRIC (none currently) members should be strengthened. The auditing profession is over-represented in IFRIC. At present, half of IFRIC members originate from the auditing profession whereas only one has a preparer background, which is highly unbalanced. Moreover there is no IFRIC member appointed as member of the IFRIC Agenda Committee who does not originate from the major international accounting firms. We believe that, based on the Constitution Review proposals, such a situation may arise in the selection of IASB members also. Selection criteria based on professional background should therefore be strengthened. Moreover, we object to the IASCF referring to the CFA Institute as “the” body representative of the users. Regular contacts with analysts, at least in Europe, reveal that their views are quite different from those put forward by the institute.

We therefore recommend that the number of members having a preparer background represent at no time less than a quarter of the total members appointed in the different committees of the IASCF.

3- Topic 9: The effectiveness of IFRIC

No change in the IFRIC operating process and duties has been proposed. However, the need for rapid decisions or communication on emerging issues is now becoming fully apparent. Although IFRIC must remain the only interpretative body, some parties such as auditors (namely the Big Four) and regulators are currently attempting to gain the power to decide how to implement IFRS. The coordination processes that are presently being set up by those parties lack due process, transparency and balanced views.

We urge the IASCF to design adequate remedies for this anomalous situation, namely rebalance its composition and reaffirm that IFRIC is the body in charge of IFRS interpretation.

4- Topic 3: The oversight role of the Trustees

The proposed Constitution does not put enough emphasis on Governance. Although some oversight duties have been included, they are not considered sufficient to make the IASB accountable for its decisions as it should be. For example, simple “consideration” by the Trustees of the IASB agenda is not sufficient. Even if the final decision is left with the IASB, the Trustees should be fully involved in setting the agenda, via an Agenda Committee if needed. Agenda should be discussed with the SAC. Full justification by IASB for not taking SAC comments into account should be required by the Trustees.

5- Topic 1: Challenges facing SMEs

Mention of the SMEs in the IASCF objectives is not done in a way consistent with a potential complete separate set of standards for SMEs; in order neither to preclude nor to pre-empt the debate on the development of SME standards as considered necessary by a great majority of respondents, the wording must be adjusted and more emphasis be given to the specific needs of users of SME financial statements and to the cost/benefit balance which is particularly critical in an SME environment. It is key that the IASB addresses this issue adequately. UNICE issued more detailed comments on this matter on 22 November 2004.

6- Topic 7: Consultative arrangements of the IASB

Former paragraph 32 letters b) and d) to f) should be reworded so that every step be considered mandatory in the IASB due process. IASB would be allowed to skip steps such as discussion memorandum or advisory groups on a “comply or explain” basis and under the close oversight by the Trustees. Nonetheless exposure drafts and bases for conclusions are never to be omitted, whatever the circumstances; advisory groups are necessary for all major projects: for example, in our view, the Revenue Recognition project lacks the support of an advisory group.

7- Topic 6: Formal liaison relationships

We object to the full discretion left to the IASB and the IASCF in general to establish liaison relationships as considered necessary in the circumstances. At present liaison relationships are based on a membership status which includes regular meetings of the forum of national standard-setters, access to the IASB working papers, participation in fatal flaw reviews and sharing joint projects. The direction towards bilateral relationships leaves the door open to geographical interests dominating the work of the IASB, through a biased and non-transparent selection of specific relationships. The existence of a forum of liaison standard-setters is a feature that serves well the need for communication and transparency. In particular the liaison relationship established with EFRAG on the basis of the above described status is considered essential by UNICE.

We believe EFRAG should be formally identified as a working partner of IASB, either in the IASCF Constitution or by the Trustees. The content of this working partnership should be well defined and described under the oversight of the Trustees. It should be aimed at reaching an appropriate balance between US and European influence on the work of the IASB. It should include granting EFRAG the status of observer in IFRIC and formal member of the Standards Advisory Council.

UNICE is of the opinion that final decisions taken by the Board on the constitution are of crucial importance for the future of international accounting and require a thorough appraisal of the proposals and views expressed by the various respondents.

UNICE would therefore recommend postponing the final decision on the constitutional review and putting forward more radical proposals to ensure a more satisfactory result in order to have more time to discuss certain issues for which an adequate solution is still missing.

We hope the comments expressed above are given due consideration and remain at your disposal should you need further clarification or background information.

Yours sincerely,

(original signed by)
Philippe de Buck