

22.7/8/1

16 June 2005

Sir David Tweedie  
Chairman IASB  
30 Cannon Street  
London EC4M 6XH

Dear Sir,

RE: DRAFT MOU ON THE ROLE OF NATIONAL STANDARD SETTERS AND THEIR  
RELATIONSHIP TO IASB

We welcome the opportunity to comment on the draft memorandum of understanding put out for comments by the IASB on the role of national standard setters and their relationship to IASB.

UNICE welcomes every effort made by the IASB in order to enhance and develop its communication process. While we believe that the aim of the proposed MoU goes into this direction, we are nevertheless concerned by the fact that the MoU gives a role of key information channel to NSS. We do not believe that such a clause strengthens the communication process, and we consider that each constituent should remain free to address issues to the IASB and that nobody should be seen as having the duty of being the ambassador of the IASB anywhere. UNICE and its member organisations are convinced that it is the direct exchange of views between IASB and the preparers that has to be enhanced. Be it liaison meetings, technical discussion with the staff, hearings or the direct talks with the ERT CFO task force, IASB has proven the usefulness of such an approach. Preparers will always prefer such types of channels as they produce unbiased information that is the prerequisite for a common understanding of arising issues.

Moreover we recommend that EFRAG should have a strong relationship with the IASB in order to facilitate the endorsement process in the EU. These points are discussed below and in the annex.

#### 1- Developing liaison relationships

As you may recall, UNICE expressed, as part of its comments on the IASCF Constitutional review, some concerns that formal liaison relationships with national standard setters or other appropriate bodies interested in standard setting were no longer defined and selected as part of the Constitution set up by the Foundation. This change, in our view, was leaving too much discretion to the IASB in the selection of the organisations with which it would consider suitable to entertain liaison relationships, creating opportunity for imbalance and lack of transparency in the communication process of the IASB.

Furthermore, national standard setters may have very different status (private, public...) and very different roles in the various countries and regional areas around the world (convergence projects with the IASB, IFRS being adopted or in the process of being adopted, IFRS endorsement processes etc...). We therefore believe that a generic label "national standard setter" is too ill defined to serve as the right basis for identifying specific partnerships worthwhile to being established and approved between IASB and other organisations.

Therefore we believe the proposed MoU should be reviewed and approved by the Trustees, and *serve as a framework* for establishing specific relationships, with national standard setters or other organisations, each of them being specifically identified and approved under appropriate oversight of the Trustees, after its objectives have been narrowed down to what has to be accomplished. The content and context of each decision should be made public when reached, and a comprehensive list of the relationships entertained by the IASB and of their current objectives maintained up to date on the IASB website.

Moreover we would like to emphasize that every relationship that the IASB entertains should follow the same route. Convergence agreements as the Norwalk agreement, or the agreement with the Japanese standard setter, should not be ways of dealing with specific areas in the world differently than with others. They should either be reviewed and adjusted in order to fit the general framework, or the framework should be adjusted and closer links be considered suitable for other organisations.

## 2- EFRAG's role

As a European organisation and a founding father of EFRAG, UNICE is very sensitive to the very specific role that EFRAG ought to play in the communication and working process of the IASB. In the late months when the IASCF Constitution review has been discussed, we have supported the idea of a much stronger and more efficient relationship being created between IASB and EFRAG, strong and efficient enough to ensure that proper balance is reached with the influence exercised by FASB over the work of the IASB.

The detailed comments expressed in the annex to this letter provide our assessment of how the principles proposed could apply in the context of the liaison relationship between EFRAG and IASB. Much can be achieved and done on the basis of the principles already set up. Only specific focus on a given relationship can make this proposal operational and workable.

As you know, EFRAG is coordinating a forum of national standard setters, all of European origin, belonging to countries that are or are not part of the European Union. The more this coordination is efficient, the better European views will be expressed and explained to IASB, and the more resources EFRAG will be able to bring into joint projects. We therefore do not support or believe worthwhile that the IASB establishes new relationships with national standard setters in Europe, beyond the three existing liaison relationships that the IASB has been entertaining for close to five years. However, we expect these three relationships to eventually grow embedded in the EFRAG – IASB relationship, in relation to all issues being developed and decided at the European level.

### 3- Promoting IFRS

Apparently the present memorandum of understanding is based on IASB and its partners accepting reciprocal duties, which seems appropriate. However, we disagree that anyone should be seen as having the duty of being the ambassador of IASB anywhere, in whatever circumstances. To participate in the general effort of promoting one set of high quality standards on the widest basis internationally is one thing; to somewhat accept to explain and promote IASB's views whatever the scope and timing of the project, whatever the technical aspects in IASB's proposals, is another. National standard setters or organisations involved in standard setting are usually technical bodies, which have the ability to form their own technical views on every issue at stake. They cannot be reduced to making the promotion of IASB's ideas, or helping to convey constituents' comments to the IASB, or highlighting specific regional issues or challenges. They can take and express views and positions, and it should be the duty of the IASB to consider their views and positions very carefully, in order to reach high quality solutions.

If IFRS, where adopted and used, cease to regularly create controversy and unease, and help put understandable, comparable, relevant and reliable financial information in the hands of preparers and users at a reasonable cost, promotion of IFRS will be an easy game. This is why we continue to believe that IASB should keep concentrating its best efforts on the success of implementation of IFRS in the regional areas which have entrusted the IASB in being their standard setter, and not give preference to other constituents, in the hope that a compromise may be reached over convergence.

Should you wish to comment on the above further, please do not hesitate to contact us.

Yours sincerely,



Jérôme P. Chauvin  
Director, Legal Affairs Department

## Annex

### **Assessment of principles proposed by the IASB in view of the form that a memorandum of understanding between the IASB and EFRAG could take**

#### §2 Working with regulators

In our view, principles 2.3 and 2.4 do not apply to the relationship between EFRAG and IASB, as IFRS have already been adopted in Europe.

However, these two principles should be key in the memorandum of understanding to be established between the IASB and FASB or IASB and AASJ.

#### §3 Communication

All principles set out from 3.15 to 3.22 are suitable for ensuring proper communication between EFRAG and IASB. Some of them already apply in practice, others need to be further developed. A supplementary paragraph, 3.23, should in our view be added in order to have IASB take the duty of alleviating and responding in a constructive fashion to comments expressed by EFRAG on a proactive basis. This supplementary IASB duty is clearly presently fulfilled vis-à-vis FASB, and should be extended to EFRAG.

Applying § 3.15 would in our view vary in implication, depending on the depth and objectives set for a specific relationship. In the specific case of EFRAG, this principle should lead IASB to include EFRAG as a partner in the convergence efforts developed with other major regional bodies, such as the FASB, and also the AASJ. This should allow EFRAG to be able to bring input to the debate on convergence as early as possible in the process, in conformity with principle 3.22, and ensure that, in compliance with the IASCF Constitution, no geographical interest dominates.

Paragraph 3.19 would be reversed in its formulation. At present many European constituents formulate their comments to IASB and not to EFRAG, in time for their views to be taken into account as constituents views. This is the case, for example, of major accounting firms, which comment on almost every IASB project only for the benefit of IASB, although, at present, a vast majority of the IFRS issues they face and deal with originate in Europe.

#### §4 Project role

The principles set out under this heading seem relevant to us. However we object that an IASB active project could be placed under the responsibility of FASB (as suggested by § 4.7), which has no accountability or responsibility in standard setting vis-à-vis Europe and other IASB constituencies. In every circumstance, the IASB should be the leading team, as IASB is the only standard setter, responsible for acting in the worldwide public interest.

#### §5 Comment role on IASB consultative documents

Proper implementation of principles set out in §3 and §4 should in our view lead to dramatically decrease the importance of the principle set out in §5.4. EFRAG and IASB relationship should be strong and efficient enough, lead times and coordination in the projects sufficient, to have most EFRAG's comments and objections be expressed and dealt with long ahead of the publication of an exposure draft (see our comments in relation to §3.22 and our suggested addition in §3.23).

## §6 Application of standards

We fully support paragraph 6.6 which is critical to the endorsement process of IFRS in Europe, for example.

Paragraph 6.7 does not apply to EFRAG, as EFRAG is not acting in the capacity of a standard setter. However, in our view, EFRAG should not be proposed to adopt a principle whereby "EFRAG should avoid giving non endorsement advice".

It is in our view the responsibility of the IASB to ensure that conditions for endorsement of IFRS have been secured, before an IFRS or an IFRIC is issued. Based on the experience we have had so far in Europe, IASB, in dealing with constituents' comments in due course, could have avoided the situations in which IAS 39 has been carved-out (regulators and some national standard setter concerns had been known very early in the process and overlooked) or IFRIC 3 endorsement advice is negative (no initiative on the IASB or IFRIC side to start discussions and joint work with EFRAG although the comments were overwhelmingly negative and the issue mainly concentrated in the European region).

Every endorsement mechanism has the responsibility to take every step necessary in order to avoid that unwanted requirements become the law of the jurisdiction. Therefore the responsibility of the duty expressed in §6 has to be IASB's.

## §7 Interpretations

The principles set out in this section tend to supplement and support the work of IFRIC in order to help IFRIC better carry out its interpretation duty in satisfactory conditions of quality and delay.

In our view, the first course of action to take in order to improve IFRIC's efficiency is to reform the work of the IFRIC's agenda committee in several ways:

- 1- To ensure that the IFRIC's Agenda Committee procedures are implemented as made public on the IASB website; today we are aware of several serious infringements;
- 2- To make the IFRIC's Agenda Committee meetings and decisions public;
- 3- To ensure that the composition of the IFRIC's Agenda Committee and of the IFRIC is a proper reflection of a balanced constituency.

These improvements are necessary to have the IFRIC work in accordance with the principles set out in the IASCF Constitution.

Working under principle set out in §7.6 is consistent with the directions in which EFRAG is making its best attempts at present in order to bring IFRIC with the adequate level of support and its constituents with adequate answers to the issues they face.

We strongly believe however that the development of the whole coordination and communication process should be made public. In that respect we would like to stress the following concerns:

- all issues identified should be made public (in generic terms, as every interpretation issue) as soon as they are under the scrutiny of the adequate coordination effort (so that any constituent facing the same issue would know that it is being handled),
- the analysis and possible alternatives identified by EFRAG should be made public, while they are being developed and as transmitted to IFRIC,
- IFRIC should duly justify on what grounds an alternative is rejected for the benefit of another, and these grounds should be fully consistent with the

content of the existing IFRS, and not anticipate future directions taken by the IASB.

Principle 7.7 does not seem very operational to us. It is very difficult for any jurisdiction to ascertain for sure that the issue is purely domestic. Moreover an issue can be purely domestic, but a particular way of interpreting an IFRS paragraph or guidance may not. We therefore would support some type of validation by IFRIC, in the mode of "interpretation validated, unless, within one month, negative assessment being given or further analysis being required", as had been considered at some earlier stage.

We would agree with paragraph 7.8, provided that the explanation provided fits the analysis presented by EFRAG, and is based on written parts of IFRS, relevant in specifics or in analogy to the issue at stake.

#### § 8 Education

We do not have any specific comments to formulate on this issue