

Legal Affairs Department
JPC/FF/22.7/8/1

6 October 2005

Mr Stig Enevoldsen
EFRAG
Avenue des Arts 13-14
1210 Brussels
Belgium

Dear Sir,

RE: ACHIEVING CONSISTENCY OF APPLICATION OF IFRS IN THE EU

UNICE welcomes the opportunity to comment on the discussion paper issued by EFRAG on the best ways and means to achieve consistent application of IFRS in the EU. Our answers and comments in response to your invitation to comment are set out below.

1- Need for consistency

In UNICE's view, consistency of application of IFRS is key, not only in the EU, but also everywhere else where IFRS are applied. The main objective in adopting IFRS throughout Europe was to achieve gains in efficiency on international financial markets. This increased efficiency relies on greater understandability and comparability of financial statements of entities adopting IFRS wherever they are based in the world.

2- Need for interpretations

In their conversion process to IFRS, business entities in Europe have already faced numerous issues. Decisions on the correct accounting treatment have gone far beyond the exercise of judgement that a principle-based set of standards requires. In our view there are various reasons for this:

- Existing IFRS, notwithstanding changes made in the improvement project, are not fully consistent with each other and with the framework; nor are they internally consistent in every way;
- IFRIC's criteria for taking items to its agenda are far too restricted;
- IFRIC's operations have proved to be very inadequate (mainly because of undue constraints and restrictions being put on its work);
- Auditors have been in a position to dictate how IFRS ought to be applied, and entities have followed, because of the lack of time and possible reliance on IFRIC.

3- Need for an emergency issue mechanism

Each time an accounting issue has been identified, there has been an eagerness to find the appropriate solution as quickly as possible. Some have argued that this means that some sort of emergency task force is therefore needed.

In their conversion process to IFRS, business entities in Europe have been faced with implementation and interpretation issues each needing to be resolved in a very short timeframe. All the standards have been new to these entities, and this has given rise to a greater sense of urgency for the solutions than we consider will be necessary in future.

We expect that in the future:

- Amendments to existing standards issued within a year will not be as numerous,
- Amendments and new standards will be issued well in advance of their mandatory application date. The IASB has committed itself (through their proposal of MOU with national standard setters) to allow sufficient time for adoption processes, in order not to place entities in a position where they would have to comply with a set of standards different from full IFRS,
- IFRIC will take into account comments made in response to their review of operations and will get organised in order to comply with the announced lead time of six to eight months for solving issues submitted to them, the agenda committee process being included, and the whole process becoming fully transparent.

We therefore expect that implementation and interpretation issues can be resolved by IFRIC following its due process, without any emergency task force being set up.

4- Role of auditors and enforcers

In our view, auditors and enforcers should not have a public role in the interpretation of standards. Assessment and control duties must remain independent from setting the requirements. Otherwise risks of conflict of interests or of authority abuse may arise.

When implicit options in standards may lead different entities to account for similar transactions in different ways, neither auditors nor enforcers ought to be in a position to select the appropriate accounting treatment to be applied. However, auditors and enforcers may play a role in submitting issues to IFRIC.

It is essential for business entities that the appropriate accounting treatment can be determined from reading standards and attachments, (including bases for conclusions and implementation guidance) and exercising judgement, without having to fear the power of auditors or enforcers to call for unpredictable changes to the accounts as prepared under the responsibility of the entity.

5- Assumption that IFRIC will meet its commitments

IFRIC present commitments would not allow for issues to be solved within an appropriate time frame. As explained in our answer to item 3, we expect IFRIC to take into account the comments made in response to their review of operations. IFRIC has four main issues to solve before playing its interpretative role in an appropriate fashion:

- The total lead time for solving issues, from date of submission to date of issuance of final interpretation, must not exceed six to eight months,
- The criteria for taking an item to IFRIC's agenda must be relaxed, more especially :

- i. issues related to existing standards must be taken onto the IFRIC agenda, except if an amendment or new accounting standard is to be issued by IASB before, or at the same time as, any interpretation would be available,
 - ii. issues must be taken to the IFRIC agenda regardless of whether there is evidence that diverse practices have arisen. A group of 12 people cannot in the appropriate time frame gather evidence of worldwide practices. Even if they could, past practice, even on a homogeneous basis, should not set standards.
- The IFRIC agenda committee must be reshaped into a fully representative group and it should not remain in the hands of the auditing profession. We do not support the current structure with a small IFRIC agenda committee that is not representative of the stakeholders. Please refer to our proposal for a European support mechanism to IFRIC for our views on the structure of this agenda committee.
 - The whole process, including the agenda committee process, must be fully transparent. Everyone must be made aware of the issues being submitted.

6- No interpretative guidance issued by Europe

Business in Europe is of the view that no other body but IFRIC must be in a position to issue mandatory IFRS interpretative guidance. This is necessary to ensure that there is only one set of standards worldwide.

7- European support mechanism to IFRIC

Notwithstanding our answer to the question above, we believe that a European support mechanism would benefit to IFRIC's operations. In our view, a European mechanism could play the role of an IFRIC agenda committee devoted to issues arising in Europe and hence help IFRIC face its challenges. To be efficient and acceptable, this support mechanism ought to be worked out in the following manner:

- Such a support group should include members with various backgrounds, including auditors, preparers, and enforcers.
- It ought to be fully coordinated with IFRIC, in order to prepare agenda papers and proposals applying IFRIC's working methods; this is a necessary step to avoid any duplication of work at IFRIC's level;
- It ought to meet at a reasonable frequency (at least once a month) in order not to generate any undue delay in the treatment and analysis of issues;
- It ought to issue its suggestions for interpretative texts, provided as proactive European input to IFRIC's work.

European business would fully support EFRAG for chairing and coordinating such a support group.

8- Transparency

In our view, such a support group process ought to be fully transparent, including the publication on its website of the analysis of issues being transmitted to IFRIC. The suggestions for resolution would not be formal guidance, and entities would therefore not need to comply with them. Even if the outcome were considered non-authoritative guidance, we have had experience of such guidance being issued by national standard setters and it has proved helpful to some entities and been disregarded by others.

Furthermore, if IASB and IFRIC meet their commitments and challenges (allow for enough time before application of new requirements becomes mandatory, deal with issues within an acceptable timeframe), the above risk would seriously diminish.

Should you wish to comment on the above further, please do not hesitate to contact us (folker.franz@unice.be).

Yours sincerely,

Best regards

Jérôme P. Chauvin
Director, Company Affairs Department

