



Mr Gerrit Zalm
Chairman of the Trustees
IASCF – International Accounting Standards
Committee Foundation
30 Cannon Street
London, EC4M 6XH
United Kingdom

31 March 2009

Dear Mr Zalm,

BUSINESSEUROPE welcomes the opportunity to comment on the proposals for the second phase of the 2010 IASCF Constitution Review.

The first phase of the Constitution Review has been the opportunity to respond positively to the call expressed by IASCF Constituents for greater accountability of the IASB in its commitment to serve the public interest. In this context, we regret that our recommendations regarding the composition of the Monitoring Board have not been followed and that no feedback statement has been issued which explained on what basis the final decision was reached.

The second phase of the Constitution Review is the opportunity for the IASCF to respond to the other long awaited improvements in IASB monitoring:

- to subject the IASB agenda decisions to public consultation and approval by Trustees in order to eliminate potential contradictions between the necessary independence of the IASB technical duties and the safeguard of the public interest;
- to ensure that the IASB due process is effective in practice; as the IASB due process now meets the highest standards possible in its design, improvements can only be achieved with a change of monitoring; to that purpose we suggest that the IASB due process is run partly independently from the IASB.

In addition to the proposals which we provide for further enhancement of the IASCF Constitution, we recommend that for the next five years the work of the IASB is focussed on increasing the efficiency of capital markets in a context of financial stability. Consequently, we recommend that a specific Committee is set up to deal with the next developments (updating and monitoring the difficulties of application) of IFRS for Non Publicly Accountable Entities and that no resources are dedicated to public or not-for-profit sectors.

Our detailed comments and proposals are set out in the appendix to this letter.

Yours sincerely,

Philippe de Buck

APPENDIX TO THE LETTER OF 31 MARCH 2009 TO MR GERRIT ZALM SECOND PHASE OF THE 2010 IASCF CONSTITUTION REVIEW

1- Comments on the outcome of the first phase of the 2010 IASCF Constitution Review

BUSINESSEUROPE understands that the revision of the IASCF Constitution as of Feb 1, 2009 provides the outcome of the first phase of the Constitution review. We regret that the Trustees did not provide any feedback statement on the proposals and comments which they received in response to their consultation. We believe this additional step in the IASB due process should be carried out in every significant public consultation which the IASCF undertakes. Therefore, we wish to reiterate comments which we provided before - and that were widely shared with other constituents – which do not seem to have been considered beyond the analysis of comments received by Trustees.

a. Financial stability

We express regret that the voting members of the Monitoring Group have been limited to regulators, excluding international and regional bodies in charge of financial stability.

b. Geographical diversity

We regret that the IASCF has not further considered different geographical criteria in order to avoid dominant native English cultural background.

c. Voting majority

We regret that the Trustees accept that international accounting standards are issued even though they are at the time of publication controversial within the IASB itself. We believe that controversy amongst the IASB experts on a standard clearly indicates that either the standard is not of high quality or that it is not applicable without difficulty or flaw on an international basis.

2- Eliminating potential contradictions between the necessary independence of the IASB technical duties and the safeguard of the public interest

The last public consultation has been another opportunity for IASCF constituents to highlight how important the independence of the IASB is in the performance by the Board of its technical duties – i.e. setting high quality, principle-based, robust financial reporting standards that are applicable and enforceable internationally.

Because of that need for independence, the IASCF Trustees have up to now considered that the IASB should have full discretion in setting its own technical agenda, the IASB's only duty being to consult with the Standards Advisory Council (SAC) and Trustees before making any decision. We disagree with that view. Once a project scope is defined and the project is being active, we agree that the IASB should have full discretion in the development of the project. However, we believe that the technical work starts with the development of the project, not with the decision being made. The public in general and those responsible for economic affairs in particular may have a clear perception of where financial reporting standards should be made more relevant or more effective, and of how various needs for improvement should be prioritised.

Therefore, agenda decisions should be made by the IASCF following the process suggested below:

- The IASB should initiate at regular intervals a public consultation in order to identify suggestions for new agenda items or different levels of priority
- agenda proposals should be developed by the IASB, as they are today, identifying more clearly though why improvement is needed, what the main benefits of improvements would lie, other than in generic terms such as "to provide users with more useful information";
- the IASB should also identify relative priority given to each proposal, amongst other proposals or already active projects;
- those proposals should be subject to public consultation and to SAC consultation;
- SAC should formulate recommendations to the Trustees, and fully explain and document their reasoning if their conclusions differ from IASB's proposals;
- Trustees should decide ultimately.

3- Enhancing the effectiveness of the IASB due process

Since the IASB has been set up in 2001, its due process has been constantly enhanced throughout the years. The result is, we believe, that the IASB's due process is structured in such a way so as to meet in theory the highest standards possible. Nonetheless, IASB's due process is not assessed by IASB constituents as being either effective or satisfactory as we have set out in several of our comment letters.

Having closely monitored the work of the IASB and participated in most IASB consultations for the last six years, we observe that the consultation process of the IASB remains a rather formal, check-list ticking exercise, with little influence on the final outcome. The IASB does not consider the input it receives as carefully as it should, for example, with respect to IAS 19, Employee Benefits,

we have concerns about developments. Quite often the IASB disregards comments received as bringing “no new argument” or reflecting that “people have not understood”. The IASB usually also disregards relative consensus reached by constituents, indicating that “numbers are not important”. In addition, analyses of comments vary in quality and are prepared and presented by staff that has a vested interest in the project they manage and are subordinated to the IASB. The composition of advisory groups and round tables is defined by the IASB, so that the IASB has influence on the input it receives publicly.

Our observations lead us to recommend that the IASB’s due process is carried out on a more independent basis under the responsibility of SAC or some other appropriate body:

- Staff resources would be allocated to SAC in order to provide minutes of meetings (SAC and other advisory groups), to prepare analyses of comment letters and conclusions from round tables and also provide SAC members with high level understanding of the issues at stake in each project,
- SAC would form a nominating committee responsible for the composition of IASB advisory groups, following public calls for applications,
- SAC would receive feedback statements by the IASB, prior to the publication of final standards, explaining why input by constituents has been deemed irrelevant in the final decisions made,
- Following the last consultation with SAC, the IASB would make their final decisions independently.

4- Setting up a separate IASCF Committee to be responsible for the IFRS for NPAEs

In their invitation for comment, the IASCF Trustees question whether the objective of the IASCF should be reviewed.

We believe that no change to the objective of the Foundation should be made. The IASCF has been created to last; its objective is wide and should remain so. However, every Constitution review could be the opportunity to identify for the next five following years where the IASB should focus its efforts. In this context, we believe that the IASB should focus solely for the next five years on the needs of publicly accountable entities.

We recommend that the reference to small and medium-sized entities should be revised in order to lift the ambiguity it suggests. IASB has not considered any size criterion in its work so far. In particular no assessment has been made of whether the growing burden of IFRS was meeting the trade off between cost

and benefit for small and medium-sized listed companies, although such an assessment is necessary if financial reporting is not to make financial markets less and less accessible for economic development.

On the other hand, the IASB is about to complete its project of a specific IFRS dedicated to non-publicly accountable entities. This process has shown that IASB members did not necessarily have the proper background to deal with those entities, decisions were subject for endless compromises and specific needs of users of financial statements of non-publicly accountable entities were neither well known nor assessed specifically.

As a result, we recommend that a specific IASCF Committee be set up to the purpose of updating and monitoring the difficulties of application of the soon to be published IFRS for NPAEs. This committee could operate as the IFRIC does (participation of members in meetings only to the extent needed, no remuneration, travel expenses borne by the Foundation), except that it would have full authority on the IFRS for NPAEs, provided its decisions comply with the IFRS framework.

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