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Dear Mr Wong

The Committee of European Banking Supervisors (CEBS), comprised of high level representatives from banking supervisory authorities and central banks of the European Union, welcomes the opportunity to comment on the consultation paper, *Review of the Constitution, Proposals for change*, released in November 2004 by the IASCF. CEBS members have an important role to play in the consistent implementation of European Directives and the convergence of Member States' banking supervisory practices.

Banking supervisory authorities and central banks have a strong interest in promoting sound and high quality accounting and disclosure standards for the banking and financial industry, as well as transparent and comparable financial statements that would strengthen market discipline. Ultimately, these objectives are key components of the stability of the global financial system.

CEBS did not comment on the consultation paper published in November 2003, *Identifying Issues for the IASC Foundation Constitution Review* as the Committee only took up its duties as of 1 January 2004 and consequently there was no opportunity to comment before the February 2004 deadline.

However, we place a very high degree of importance on the work of the IASC Foundation and the IASB. This is true in particular for the European Union, which accounts at present for a very large proportion of IFRS preparers and users, following IAS Regulation 1606/2002. In that context, it is of particular importance that both the structure and organisation of the IASCF and the IASB allow for a sufficient level of dialogue and representation of their constituency. We commend the IASCF for its efforts in addressing these preoccupations in the present consultation paper. However, we are concerned that the proposals as set out might leave some of these preoccupations somewhat unanswered.

This letter was prepared within our Expert Group on Accounting and Auditing chaired by Prof. Arnold Schilder, by a subworking group chaired by Patrick Amis. It is comprised of two sections. The 'general comments' section focuses on key

aspects of our comments. The second section provides detailed answers to the questions of the consultation document.

If you have any questions regarding our comments, please feel free to contact Prof Arnold Schilder (+31.20.524.3360), the deputy chairman of EGAA, Arnoud Vossen (+31.20.524.3903) or Patrick Amis (+ 33.1.4292.6032).

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Arnold Schilder', written in a cursive style. The signature is positioned above the printed name.

Chairman
Committee of European Banking Supervisors

General Comments

Objectives of the framework and definition of users

We believe that the objectives of the framework and the definition of users should deserve more attention from the Trustees, as they constitute defining guidelines for the work program of the IASB. In that respect, we acknowledge the efforts of the Trustees to take this view into consideration, by adding a reference to small and medium sized entities and to emerging economies in the Consultation paper. However, we believe that the Trustees should adopt a wider perspective in that respect.

Although there is a reference to other users in its paragraph 2(a), the objectives of the Constitution and the work of the IASB seem to be oriented in priority towards the consolidated accounts established by listed companies, in order to help participants in the capital markets make economic decisions. We agree that the needs of investors do have to be taken into due consideration when setting accounting standards. However, potential appliers and users of IFRS are much more diverse and we would draw the IASCF's attention to the IASB Framework, which identifies examples of seven different user groups and their information needs. We would like to mention in particular that accounting standards are highly relevant to banking supervisors and central banks, given their objective of stability of the financial system. Failing to acknowledge that different users may have different needs might trigger very significant concerns among the constituency and ultimately result in difficulties in setting and implementing the standards. For example, among preparers, the implementation of IFRS by SME, emerging countries or non-profit entities is often perceived as unnecessarily complex and burdensome, given the limited resources. Hence, we recommend that in applying the objectives of the revised Constitution, the Trustees and the IASB should give appropriate weight to the needs of all constituents. These comments should not be interpreted as implying separate sets of accounting standards based on different criteria for different users.

Accountability

We support the organisation of the IASCF and the IASB as an independent body. However, such an organisation requires adequate structure, strong procedures and continued dedication and willingness to ensure appropriate accountability of the institution and, ultimately, efficiency and wide acceptance of the standard setting process.

We appreciate the efforts already displayed by the Trustees and the IASB in order to improve their accountability to constituents, as shown in this very consultation paper. However, we believe that such efforts should be pursued, notably by enhancing the involvement of the Trustees in the oversight of the IASB. In order to command wide acceptance of the standard setting process, the Trustees should not be responsible only for ensuring the adequacy of the due process and operating procedures but should also pay direct attention to the objectives, the strategic orientations and the end-results of the IASB. In doing so, the Trustees should at all times bear in mind, in particular, the

impact of IFRS on different economic environments and the different needs of users, as well as any practical difficulties in implementing the standards. They should also consider the resources and competences available to the Board and ensure they are adequate to deliver its technical agenda, notably on key items. These comments do not imply that the Trustees should enter in a technical and detailed review of the standard setting process. However, the Trustees should be able, for example, to recommend adding some topics to the IASB's agenda.

Convergence and liaison with national standard setters

We agree that convergence of international accounting standards should remain a key objective of the IASB. We agree also that the IASB should maintain and develop formal and informal liaison relationships with national standard setters.

However, as there are substantial differences between the convergence objective, which implies a specific process on the one hand, and liaison relationships of a less binding nature on the other hand, we recommend that the IASB should follow a more transparent process, on the reasons why it decides to engage in convergence or liaison relationships. We believe also that liaison with national standard setters should always be considered within the same objective of convergence and be given the same kind of consideration, in order to ensure that the work of the IASB remains connected with different kinds of economic environments and financial structures, as well as with different needs of different users.

Interpretation of IFRS

Adequate and timely interpretation structures and processes are a key factor for a smooth implementation of IFRS, in particular given the principle based nature of the standards. In that respect, we noted that the Trustees decided to allocate more resources to IFRIC in 2005, an action we fully support. However, we believe that this first step should be followed by additional efforts to strengthen and organise the interpretation workflow that will continue to follow the progressive implementation of IFRS in different countries. Consequently, we consider that the Trustees should pay particular attention to close-to-the-ground, practical and fast interpretations of the standards, by developing them either within the IASB and IFRIC or within the existing liaison relationships.

Detailed Answers

Topic 1: Whether the objectives of the IASC Foundation should expressly refer to the challenges facing small and medium-sized entities

We agree with the idea that the objectives of the IASC Foundation could refer expressly to the challenges facing SME's and emerging economies. We believe however that the needs of all kinds of users in general should receive more attention in principle, as developed in the general comments section of this letter. Such an objective could be achieved by striking an appropriate balance between academics, auditors, preparers and users among the Trustees and Board members.

Topic 2: Number of Trustees and their geographical and professional distribution

We have no objection to the composition of the Trustees being rebalanced to include more representatives of the Asia/Oceania region. We also believe that emerging economies should be given more weight among the Trustees, to strengthen their commitment and give them a voice in the standard setting process. Therefore we support the proposal regarding the allocation of the 'any area' positions as well as the intended policy in that respect.

It is also important that the composition of the Trustees achieves an appropriate balance between different accounting traditions, financial structures and business practices, in order to foster open debates with diversified opinions about the fundamental accounting options to be chosen and the definition of what is true and fair view in accounting terms. Appropriate balance in the composition of the Trustees will also help giving proper consideration to implementation problems in different environments.

In that respect, we believe that countries applying the IFRS should be better represented among the Trustees. We understand that the Trustees would prefer not to give emphasis to countries or geographical zones that decided to implement IFRS, on the grounds that, by focusing on regional and national concerns at the expense of the organisation's broader international objectives, it might impede the development of global standards in the public interest and reduce the incentive for non IFRS appliers to participate in convergence efforts. We do not believe that such fears are warranted. We trust on the contrary that appropriate representation of IFRS appliers and different accounting traditions will attract wider support to the IASB and ensure less controversial implementation of the standards.

Concerning professional backgrounds, we find it appropriate to reduce the importance given to the representatives of IFAC's members compared to the representatives of preparers or users of financial statements.

Topic 3: The oversight role of the Trustees

We consider that the proposed changes do not strengthen enough the oversight role of the Trustees vis-à-vis the IASB, as developed in the general comment section of this letter

Concerning educational activities, we believe that the development of educational programmes should not be to the detriment of concentrating current resources on the standard setting process and improvement of the oversight of the IASB. Any such educational programs should not become an unofficial layer of interpretation, with too few consideration given to practical aspects and difficulties of implementing the IFRS.

Topic 4: Funding of the IASC Foundation

We agree with the proposed wording of paragraph 13 of the proposed new Constitution.

To promote transparency, we believe that the IASCF should retain its current practice of disclosing its sources of funding.

Topic 5: The composition of the IASB

We have no objection in keeping part-time members, as they might help to maintain a direct link with the academic and business communities. However, in terms of consistency, independence and commitment, we find it appropriate to limit their number to two.

We support the proposal to replace “technical expertise” by “professional competence and practical experience” as these qualities and backgrounds should, in theory, reflect a wider range of skills and improved understanding of the practical aspects of the implementation of accounting standards. It is of great importance that the IASB membership is not limited to accounting and audit technicians and reflects a broad range of skills including preparers and users of financial statements. Moreover, the Board should comprise members that have skills in specific fields, for example banking, accounting or communication with stakeholders in an international environment. In addition, if we agree that a strict geographical distribution of Board members is not necessary, we believe that the Trustees should be very careful to keep an appropriate balance between different accounting traditions and financial and economic environments (e.g. variable interest rate environment versus fixed interest rate environment) when selecting Board members, in order to command wider acceptance of the standards. At present, 10 members out of 14 have professional backgrounds relating to similar accounting traditions.

More broadly speaking, the Trustees should ensure that countries or geographical zones that decided to implement the IFRS are better represented among Board members, in order to strengthen the adherence of these countries to the international accounting standards and to make sure that practical implementation concerns of IFRS appliers receive appropriate consideration within the Board. Whilst we consider it important for all board members to exhibit the required skills, and in the context of supporting the proposed changes to section 20 of the Constitution, we believe this is of particular importance in respect of the chairman given his role as the ambassador of the IASB around the world, in order to anchor the accountability and the awareness of the Board to practical implementation problems. We believe the Trustees should consider whether the constitution is sufficiently clear in respect of the skillset required of the chairman of the board.

Topic 6: The appropriateness of the IASB's existing formal liaison relationships

The change in the Constitution acknowledges the expanded liaison relationships. To ensure that the IASB develops balanced liaisons with standards setters, the choice and nature of formal liaison relationships should be formalized in a due process. In particular, the objective of convergence with other accounting standards should not result in a disproportionate influence of a single accounting tradition, suited to the particular structure of a financial system and a specific economic environment. We believe also that the due process for convergence and liaison relationships should provide for the possibility of open-ended

discussions on the related issues. We therefore commend the IASB for its recent efforts to pursue convergence in the context of a wider range of accounting traditions.

We commend the Trustees for the proposed change in the Constitution opening the possibility to develop liaison relationships not only with accounting standard setters but also with other official bodies concerned with standard setting.

Topic 7: Consultative arrangements of the IASB

We commend the IASB for improving its due process and consultative arrangements, as displayed in its consultation paper dated 24 March 2004. We note that the only change proposed to the Constitution requires that the Board explains the reasons why it did not follow some optional steps of the due process (exposure drafts, steering committees, basis for conclusions, public hearings and field tests). We welcome this 'comply or explain' approach as it is of great importance that the due process is transparent and effective. We consider however that when undertaking major projects, those steps involving either public consultation or practical field testing should be followed as much as possible, in order to ensure that the most important choices structuring draft standards are carefully examined and debated and that a close link is made with the practical environments of different financial systems.

We understand that there might be a need for flexibility in the standard setting process but such flexibility should come with improved oversight from the Trustees, as developed in the general comment section of this letter. Moreover, it has to be noted that due process cannot substitute for real openness to dialogue with the constituency and we commend the IASB for its recent efforts on that respect.

Topic 8: Voting procedures of the IASB

In order to ensure a broad majority in the Board as a stable basis for the acceptance of a standard, because it will help ensuring proper consideration of different economic environments and users, we believe that a ten vote majority should apply concerning the release of final versions of the standards.

Topic 9: Resources and effectiveness of the International Financial Reporting Interpretations Committee (IFRIC)

As developed in the general comment section of this letter, we believe that there is an urgent need to improve operational arrangements concerning the interpretation of IFRS, relating in particular to giving quick responses to urgent interpretation demands, whether within IFRIC or by other means, such as liaison relationships.

Topic 10: The composition, role, and effectiveness of the Standards Advisory Council (SAC)

We agree overall with the terms of reference and operating procedures of the SAC presented in appendix D, in particular the nomination of a Chair independent from the IASB. We agree also with the objective of reducing the

number of participants in order to foster active involvement of members and effective input from the SAC, notably by advising on the agenda of the IASB. It is essential also that the Trustees give appropriate consideration to the balance in professional and geographical backgrounds, and constituencies, of SAC members. We recommend, as already suggested by the Basel Committee on Banking Supervision in its comment letter to the first consultation paper, that the Trustees –as part of their oversight role of the IASB- organise an annual meeting with SAC members on a confidential basis, without the IASB being present, to obtain the SAC’s views on the IASB’s agenda and due process.