

Ms Anita Deneke
Ministerialrätin
Leiterin Rechtsausschuss
Deutscher Bundestag
Platz der Republik

11011 Berlin

Developing the application of IFRS in Germany in a proper and transparent way

Dear Ms Deneke,

Thank you for inviting me to the public hearing on 9 May 2005 and for the opportunity to provide you with our position in writing. Regarding questions Nr. 1 to 5 of the list you provided we have some comments below, but we would also like to refer to the excellent and detailed explanations provided by the German Accounting Standards Committee/DRSC in the letter to you dated 29 April 2005.

Introduction

EFRAG certainly supports the objectives of the Financial Services Action Plan as identified by the Lisbon European Council of Ministers Meeting in order to make Europe the strongest region economically by enhancing the European capital markets. One of the pillars in the Action Plan was to ensure more transparent accounting for European listed companies.

Therefore the EU Regulation No. 1606/2002 as of 19 July 2002 (the EU Regulation) requiring listed EU companies to use IAS in their consolidated financial statements generally from the financial year 2005 onwards or in some cases from 2007 at the latest was issued. There is broad support for the policy to ensure that securities can be traded on EU and international financial markets on the basis of a single set of financial reporting standards. It is clear that the proposed structure is not a European standard setter but there is need to establish proper European influence within IASB.

There is a general agreement that, in order to ensure that issues identified in Europe are fully understood and properly debated in the IASB, Europe needs to coordinate its views and share its resources, so as to provide input to IASB at an early stage. All organisations involved in the debate have always stressed the risks of having standards in Europe other than global standards.

There is also a view that Europe can only support IFRS if it has sufficient input and influence in its development.

The EU Regulation proposed the introduction of a two-level endorsement mechanism. The endorsement mechanism is intended to give IFRS the necessary legal backing. The EU endorsement mechanism has been introduced to provide public oversight, to oversee the adoption of new standards and interpretations. The endorsement mechanism operates on the basis of monitored self-regulation and has a two-tier structure – a political (regulatory) level and a technical (expert) level. The technical (expert) level is organized by the private sector. EFRAG, the European Financial Reporting Advisory Group, is the technical expert group providing the technical endorsement advice to European Commission and the Accounting Regulatory Committee (ARC). We have attached a brief description “About EFRAG” in Appendix 1.

Question 1 a. and b.

We refer to the response from the GASC.

Question 1 c. Potential shortcomings of the IASB structure

We refer to the attached comment letter dated 10 March 2005 from EFRAG to the International Accounting Standards Committee Foundation (IASCF) on the IASCF Constitutional Review. In the letter we have indicated some proposals for improvements to the IASB structure.

Question 1 d. The current endorsement process

We refer to the letter from the GASC, but would like to add some comments.

We would also like to stress that we strongly believe in the structure of the endorsement process the way it is established today. It ensures involvement - on the European level- of both technical experts and politically accountable bodies namely the EU Commission and the ARC. The technical level – EFRAG – has an open and transparent due process before issuing advice. The ARC is accountable to the national governments and is thereby accountable to the national Parliaments. In Appendix 2 we have provided a description of the endorsement process and the timing for endorsing a standard.

The endorsement process is certainly very fast compared to any other process known up to now. It should also be emphasised that a speedy process is needed

in order to allow European listed companies to be able to legally comply with the standards and interpretations issued by the IASB. It is also important that the companies know on a timely basis what accounting standards and interpretations to comply with.

It might be mentioned that the endorsement process started to endorse the standards issued by the IASB and the interpretations issued by the IFRIC (the IASB subcommittee) with some delay, but the EU Commission and the ARC are now speeding up the process to ensure an appropriately fast endorsement of new standards and interpretations.

The endorsement process is however appearing to take a relatively long time from the issuance of a standard until it is fully officially endorsed. An improvement might be sought when the Regulation is reevaluated in 2007.

Question 2 IASB Priorities

We believe it is important for the IASB to aim for developing high quality and robust accounting standards that will lead to transparent financial reporting to the benefit of the users of financial statements. It should be the ultimate goal of the IASB.

However we do also support the IASB efforts to converge the accounting standards issued by the IASB and the FASB in order to get the two accounting languages closer together. The convergence project and the European involvement in the project are also covered in the EFRAG comment letter to the IASCF constitutional review.

Question 2 b. US acceptance of the IASB standards

We refer to the response from GASC paragraph 2.1 and 2.2.

We also believe that the US acceptance of the IASB standards is important because some of the biggest companies in Germany and Europe are really global players being listed in the US too. For such global players it is important to be able to use the same accounting standards wherever the company is listed. We point your attention to the recent efforts made by the European Commission in this regard.

Question 2 c. Who should comply with the IFRS?

We believe that only listed companies should be mandated to comply at this point in time, however we support that it becomes optional for other companies to be able to comply with the IASB standards if they should so wish. Over time the national rules may move towards the IFRS.

Question 2 d. SME project

We support the current IASB project to develop accounting standards for SMEs. We refer to the comments from the GASC paragraph 3.2

Question 3 IASB structure

We refer to the attached EFRAG comment letter on the IASCF constitutional review.

Question 3 b) Decision-making process of the IASB

The involvement of the European constituent is very important, and the involvement is relying upon that due process of the IASB is satisfactory to the stakeholders. The adequacy of the due process needs constant review and evaluation, but EFRAG and the European national standard setters including the GASC will closely monitor the IASB work in this aspect, and we will make appropriate comments when and if the due process is not satisfactorily seen from an European point of view.

Question 3 c) IASB funding

We refer to the letter from the GASC, but would like to add that it might be an idea to consider to fund the IASB in the same way as the US standard setter, the FASB, is funded, namely via a levy on the listed companies. It is a complicated proposal in the European context, but worthwhile considering. The funding of the IASB should however be seen in conjunction with the funding of the endorsement mechanism of Europe, because the endorsement process is part of the European system of adopting accounting standard for Europe in the legal sense.

Question 4 Endorsement process in Europe

As mentioned in the response to question 1 d. above we are in favor of the present endorsement process and we would not recommend to replace it with usual legislative processes, mainly due to the need for fast endorsement process to be able to deal with the frequent issuance of new or amended standards.

If you have any further questions please do not hesitate to contact me.

Yours sincerely

Stig Enevoldsen
Chairman of EFRAG

Appendix 1 - About EFRAG

EFRAG, the European Financial Reporting Advisory Group, was set up in 2001 to assist the European Commission in the endorsement of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) by providing advice on the technical quality of IFRS. It is a private sector body set up with the encouragement of the European Commission by the European organisations prominent in European capital markets, known collectively as the 'Founding Fathers', which are:

UNICE (Union des Confédérations de l'Industrie et des Employeurs d'Europe),
FEE (Fédération des Experts Comptables Européens),
EBF (European Banking Federation),
ESBG (European Savings Banks Group),
GEBC (European Association of Cooperative Banks),
CEA (Comité Européen des Assurances),
EFFAS (European Federation of Financial Analysts Societies),
FESE (Federation of European Securities Exchanges),
UEAPME (European Association of Craft, Small and Medium-sized Enterprises)
EFAA (European Federation of Accountants and Auditors for SMEs).

EFRAG has four broad functions for the technical level:

- Proactive contribution to the work of IASB: Proactive coordination of European standard setters, accounting profession, users and preparers so as to contribute to and influence the IASB standard setting process efficiently. The mechanism should normally provide the IASB with submissions on any discussion paper or exposure draft issued by the IASB or IFRIC. EFRAG also contributes to the development of technical and conceptual papers on emerging topics that would be brought to the attention of the IASB.
- Technical assessment of the IASB standards and interpretations: Advise the European Commission to adopt or reject a standard or interpretation for application in the EU.
- Initiating changes to the EU Accounting Directives: To help the Commission in their assessment of possible non-conformity of an IAS or SIC with EU Accounting Directives and recommending appropriate changes to the Directives.
- Implementation guidance: Identification of issues for which the IASB general interpretation guidance (i.e. IFRIC Interpretations) is not sufficient to ensure consistent application of a given standard in the EU.

The specific endorsement function consists of the technical assessment of IFRS, the other overall functions form part of the pro-active role.

Under the EU Regulation N° 1606/2002 there is reference to the Commission seeking advice from a technical committee prior to endorsing standards. EFRAG fulfils the role of that technical committee. In addition to taking advice from EFRAG, the European Commission seeks advice from member states through an Accounting Regulatory Committee (ARC), in which EFRAG participates as an official observer.

The work of TEG is overseen by a Supervisory Board drawn from the Founding Father organisations of EFRAG. The Supervisory Board is chaired by Göran Tidström, the chairman of PriceWaterhouseCoopers, Sweden.

EFRAG operates through a Technical Expert Group (TEG). The 11 members are drawn from throughout the European Union and from a variety of backgrounds. Two of the current TEG members are Germans, Dr. Thomas Naumann (Dresdner Bank) and Dr. Thomas Seeberg (OSRAM). They devote 30 to 50% of their time to EFRAG including meetings for three days each month to consider IFRS issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. The chairman of TEG Stig Enevoldsen - partner of Deloitte in Denmark - is full time. The chairman and all members of TEG and the working groups provide their time without charge to EFRAG.

The EFRAG TEG operates independently and in a transparent manner based on a due process and the decisions are taken independently of the Supervisory Board and other interests.

EFRAG's offices are staffed by a small secretariat, which provides all draft responses and papers for EFRAG. Initially it comprised two full time project managers and an administrative assistant together with the Secretary General but expanded in 2004 with the recruitment of three more project managers and the creation of position of a Technical Director.

EFRAG's role is both proactive and reactive. In addition to commenting on proposed IFRSs and IFRIC interpretations, EFRAG participates in Liaison Standard Setter discussions with IASB and thereby is involved at an early stage in all proposed standards. It maintains regular contact with IASB through meetings with its chairman. Board members and senior staff of IASB participate in each TEG meeting. The European Commission and CESR have observer seats at TEG meetings. The chairmen of the French, German and UK Standard Setters are non-voting members of the TEG. Accordingly the chairman of the German Accounting Standards Board, Prof. Klaus Pohle, participates in all EFRAG TEG meetings as non-voting member.

EFRAG maintains contact with the European Commission directly and through Commission representatives participating as observers in all TEG meetings and working groups.

TEG operates with the assistance of a number of working groups covering specialist areas including:

- Insurance Accounting
- Revenue Recognition
- Service Concessions Arrangements
- Small and Medium sized Entities (SMEs)
- Financial Instruments
- Venture Capital Investments

EFRAG is a liaison organisation with the IASB and attends meetings of the liaison standard setters. EFRAG has also been granted observer status in the IASB working groups on:

- Financial Instruments
- Insurance Accounting
- High Level Group on Financial Instruments
- Interest Rate Margin Hedge
- Performance Reporting
- SMEs

The members of TEG are appointed by the Supervisory Board, with the assistance of a Nominating Committee following an open call for candidates.

Candidates for TEG can submit applications directly or through the Founding Father organisations. The Supervisory Board looks primarily to the qualifications of the TEG candidates in terms of knowledge and experience but endeavours to ensure a broad geographical balance together with experience from preparers, the accounting profession, users and academics.

In the same way, members of working groups are appointed following a call for candidates published on our website with the aim to ensure a professional and geographical balance.

Due process and transparency are important features of EFRAG's work. Therefore, the monthly meetings of TEG are open to the public. When preparing comment letters to IASB on exposure drafts of proposed IFRSs or IFRIC interpretations and when preparing endorsement advice to the Commission on these standards and interpretations, EFRAG seeks - via the EFRAG website - input from organisations, companies and the public on TEG draft views.

EFRAG also works closely with National Standard Setters in Europe. The chairmen of the three major Standard Setters in Europe participate in TEG

meetings as non-voting members. Regular one-day meetings are held with all European National Standard Setters to exchange views.

EFRAG also co-operates with National Standard Setters on particular long-term conceptual issues, e.g. revenue recognition, which is a joint project between the IASB and the US FASB. A European working group has been established jointly by EFRAG and the German Accounting Standards Board to develop a discussion paper to enhance the debate in Europe on revenue recognition, a very fundamental issue of accounting. This is a new way of pro-active work and allows Europe to get influence at an early stage, even before the IASB has published its position paper.

EFRAG is funded by the Founding Father organisations that pay subscriptions on a half- yearly basis. In 2004 the total subscription income was 1 million Euros.

Appendix 2 - Endorsement of IFRS in Europe

Parties involved

The adoption of IFRS in Europe is structured according to the Lamfalussy process. The European Commission co-operates in this process with a technical committee (EFRAG) and a committee of representatives of members states – Accounting Regulatory Committee (ARC). This is necessary to endorse standards developed by a private body like the IASB.

The aim is that non-endorsement of standards and interpretations are only a last resort in order to avoid creation of European GAAP. However, the discussion on IAS 39 and the final conclusion by the European Commission not to endorse the full version of the standard has shown that there is a risk that the European accounting system may be different from IFRS if Europe does not effectively play its pro-active role.

Transparent process and involvement of stakeholders

EFRAG's technical advice is based on a transparent and open process, whereby any comment towards the IASB or advice to the European Commission undergoes a consultation process with all interested parties in Europe. Draft opinions are published shortly after IASB publication of Exposure Drafts or final standards/interpretations and within 1 to 2 months comment period interested parties can provide EFRAG with their comments in writing, which will be considered by the Technical Expert Group in finalising the EFRAG views.

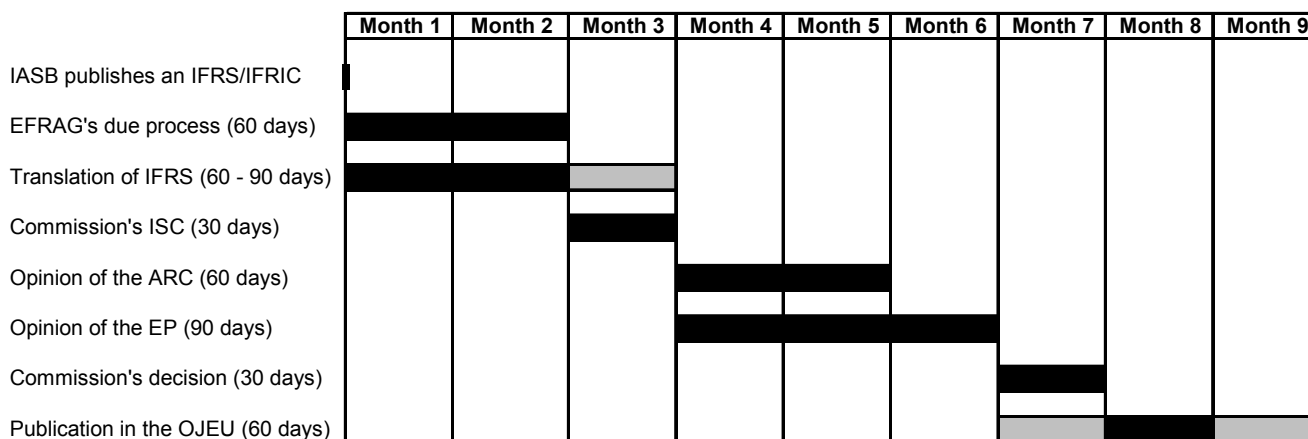
This open process allows all stakeholders in Europe to participate in an open and transparent way in the endorsement process.

As a next step the ARC discusses proposals from the European Commission regarding the endorsement of standards or interpretations. Members of the ARC are representatives of members states' governments and make sure that national issues are sufficiently addressed or taken care of.

Timing

The core endorsement process from publication of a final standard/interpretation can take up to 9 months.

OPTIMAL TIME PLANNING FOR THE ADOPTION OF AN IFRS/IFRIC



LEGEND
 Standard procedure
 Possible flexibility

EFRAG has proven that it can provide its advice in the foreseen timeframe, in certain cases even earlier. However, it is clear that the total amount of time involved is already very long keeping in mind that all new standards/interpretations and amendments to existing standards/interpretations are subject to this process. It is clear to us that the endorsement process as currently in place cannot be replaced by an issue by issue regulation including involvement of the EU Council and EU Parliament and thereby abolishing the Lamfalussy process. International Accounting issues are very complex and require the involvement of technical experts.

EFRAG TEG Members

Stig Enevoldsen, Chairman EFRAG TEG

Stig was appointed full time chairman of EFRAG TEG as of 1st April 2004. He has been member of EFRAG TEG since EFRAG was established in June 2001. He is also member of the Standards Advisory Council to the IASB. He is partner in Deloitte in Denmark. From 1987 to 1996 he was member of the Danish Accounting Standards Committee, of which he served the last six years as the Chairman. From 1991 to 2000 he was IASC Board member representing the Nordic Federation of Accountants. He was deputy chairman of the IASC from 1995 to 1997 and Chairman from 1998 to 2000.

In Deloitte he has been the signing partner on several major listed clients including some complying with International Accounting Standards. He was National Director of Accounting and auditing from 1984 to 1991 and National Director of Accounting from 2001 to 2004. He was initiator of the Deloitte Global committee International Accounting Standards Policy Committee and was the chairman from 1999 to 2001.

Mike Ashley

Mike joined KPMG in 1976, qualified in 1979 and became a partner in 1989. As well as a range of manufacturing clients, since joining he has been involved with bank audits and from 1998 has been wholly devoted to the financial sector. In addition to his experience as a partner, from 1995 to 1997 he was CFO of NatWest Markets.

He is one of a number of senior audit partners who participate in KPMG UK's technical panels which provide authoritative guidance on problematic accounting and audit issues raised by the technical accounting group or client teams. He also sits on the ICAEW's banking sub-committee and the banks working party of the European Federation of Accountants. Mike became a member of the Accounting Standards Board on 1 January 2004.

Mike joined EFRAG TEG as of 1 April 2005.

Françoise Florès

Françoise Flores has been acting for the last three years both as IFRS Technical Advisor to large European businesses (through Acteo, ERT and Unice) and IFRS Expert with Mazars. She has been and still is a member of steering committees of the French standard-setter (CNC) dealing with IFRS issues. Her IFRS expertise is backed up by over 20 years of experience in controlling and financial reporting, in the context of large and medium-size international listed corporations (Thalès, Intertechnique).

She is a member of the Performance Reporting Advisory Group to the IASB representing EFRAG, and she co-chairs the EFRAG Joint Working Group on SME accounting. She assists the EFRAG chairman on specific internal and external matters. Françoise joined EFRAG TEG as of 1 April 2004.

Catherine Guttman

Catherine joined Deloitte in France in 1993. She is partner responsible for Insurance and Actuarial technical Issues. She is a technical expert in Capital Markets, Financial Instruments and Asset and Liability Management.

She chairs the CNC Committee on derivatives for Insurance Companies. She also led International assignments in the Insurance and Banking sector (Audit, Capital Market and Credit risk, Asset and Liability Management). Prior to joining DTT, Catherine spent 10 years with the Paribas Group where she was C.F.O. of Cardif, Paribas Insurance Group, and also in charge of Global Risk Management for Capital Markets activities in Banque Paribas.

She holds a PHD from Ecole Nationale Supérieure des Techniques Avancées and a Master in Mathematical Physics. She is qualified as a Financial analyst from Société Française d'Analyse Financière.

She is a member of the Insurance Accounting Advisory Group to the IASB representing EFRAG, and she is a member of the EFRAG Insurance Accounting Working Group. Catherine joined EFRAG TEG as of 1 April 2004

Hans Leeuwerik

Hans Leeuwerik brings over 20 years of experience as controller and preparer of financial statements for Shell Companies and led a Controllers and Accounting department in Shell Finance Services (Shell International) with staff in the Netherlands, UK and USA. He is since 1987 a member of the preparers delegation in the Dutch standard setter CAR and Chairman of the VNO-NCW (Dutch employers organisation) International Accounting Committee. Before being active on the preparer side, he worked for 10 years with the Dutch institute of accountants, NIVRA.

Hans chairs the EFRAG Service Concession Arrangement Working Group has been a member of EFRAG TEG since its formation in June 2001.

Ugo Marinelli

Ugo retired from Arthur Andersen in December 2000 where he was audit partner for major clients in Italy. He was managing Partner Rome office (1979 – 1996), then Head of Assurance and Business Advisory for Italy to 1999. He was involved in developing their Business Audit methodology. Currently he is Professor of Auditing at Rome (Rome Tre) University and has made various publications.

Ugo joined EFRAG TEG in October 2002.

Thomas Naumann

Thomas started his professional career at KPMG in Germany, where he provided services as Manager, Senior Manager and Partner to clients in the financial services sector. He focused on accounting for derivatives, risk management and conversions to international accounting. Later, he joined Commerzbank as Executive Vice President responsible for group-wide accounting and taxation. At present, Thomas serves as Senior General Manager and Chief Financial Officer at the Institutional Restructuring Unit of Dresdner Bank. During his professional career, Thomas gained a lot of experience in standard setting, both on national and international levels, for example as a representative on the round table discussions regarding the improvement of IAS 39 and 32.

Thomas is a member of the Financial Instruments Advisory Group to the IASB representing EFRAG, and he chairs the EFRAG Financial Instruments Working Group. He joined EFRAG TEG as of 1 April 2004.

Thomas Seeberg

Thomas started his career in 1968 with Treuhandvereinigung AG, Essen, Germany. He joined Siemens AG, Corporate Finance Department, Munich, in 1980 where he was responsible for Financial Statements. After spending four years with Siemens Capital Corporation, New York, and Siemens Corporation, Iselin, Financial Accounting, as Vice President and two years at Kraftwerk Union AG, Erlangen, Germany, acting as head of Accounting, Planning and Controlling Subsidiaries, he joined in 1988 Siemens AG, Corporate Finance Department, Munich, Financial Statements/Controlling, as department head. He was head of Corporate Controlling, Corporate Vice President from 1991 to 1998 when he was appointed member of the Managing Board of OSRAM GmbH.

He joined EFRAG TEG as of 1 April 2005

Friedrich Spandl

Friedrich Spandl is a certified European financial analyst (CEFA) and works as a financial analyst with the Bank für Arbeit und Wirtschaft AG (BAWAG) in Vienna. He is co-head of the rating / consulting division since 1995. He brings user experience to the Technical Expert Group. In addition he is lecturer at the University of Vienna and was CFO in BAWAG investments in telecommunication and television.

He has been a member of EFRAG TG since the formation in June 2001.

Michael Starkie

Mike Starkie is Chief Accountant of BP, a role to which he was appointed in 1994.

Now 55, Mike started his career, after a degree in Philosophy and Political and Social Science from Cambridge University, with Price Waterhouse where he qualified in 1974. Mike moved to BP in 1976, and spent the next two decades in a variety of financial jobs in BP businesses and offices in Hamburg, Düsseldorf, Brussels and London.

As Chief Accountant, Mike plays a leading role in BP's mergers and acquisitions. He is responsible for the Group's financial statements (including US corporates) and for the Group's US SEC filings (20Fs and 6Ks), compliance with other financial reporting requirements, and for providing accounting advice to BP's businesses, accounting network and directors.

He joined EFRAG TEG as of 1 April 2005.

Dominique Thouvenin

Director of Accounting, Ernst & Young, France and member of his firms IAS Policy committee. He has been a member of the French standard setter (CNC) since 1995 and was a member of the Steering Committee that prepared the IASB draft on First Time Application of IAS. He is partner in charge of two major (CAC 40) clients.

Dominique joined EFRAG TEG in August 2002.

Mr. Paul A. Volcker
Chairman, IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Brussels 10 March 2005

Dear Mr Volcker,

IASC Foundation Constitutional Review: Proposals for change

EFRAG is pleased to submit its comments on the International Accounting Standards Committee Foundation's (the IASCF's) invitation for comment on your Consultation paper "Proposals for change".

EFRAG continues to support the development of one set of globally accepted accounting standards that will enhance the efficiency of the capital markets around the world and increase the quality of information reported by entities in many jurisdictions. These standards should be principle-based in order for information to be presented in the manner most useful for users around the world and developed by an independent, private sector standard setter. We fully support the International Accounting Standards Board (IASB) in this role.

Over its short life EFRAG has benefited from the goodwill shown to us by the IASB, which has never failed to provide the best people it has available to come to the meetings of our Technical Expert Group and to discuss issues with us, as well as, more recently, providing our staff with access to all the technical agenda papers of the Board and IFRIC. We trust, therefore, that our comments will be read as those of a constructive partner, genuinely seeking to enhance IASB's standing as the global standard setter through the development of constitutional arrangements acceptable globally, including to Europe.

The International Financial Reporting Standards and the IASB are very important to Europe because the Council of Ministers and the EU Parliament have made the IFRS mandatory for consolidated financial statements for listed companies as from 2005. To make the standards mandatory they have been made part of European legislation via the IAS Regulation and endorsement of the standards. Therefore the constitutional arrangements are of crucial interest for Europe.

We have to express disappointment with the proposals for change put forward in the Consultation paper. It appears that the Trustees have ignored many European concerns

even though numerous proposals for change were put forward by many different European organisations.

Many organisations proposed finding means to have European constituents more involved in one way or another, but the proposals seem to us to be more in the direction of diluting the European involvement

It is all the more disappointing, therefore, that the proposals contained within the Constitutional Review document are so marginal in their response to the ideas put forward during the preceding consultative round, including the open meetings held during the course of 2004

The key issues we see as needing improvement are

- Accountability and public oversight of the Trustees and the Board
- The governance structure
- The composition of the Trustees and the Board

One of the most concerning points in the structure is the lack of accountability and public oversight. It is troublesome to us that the Trustees are only responsible to the “public interest” and that the trustees are self-perpetuating. It is of the utmost importance that the Trustees are in some way accountable to others and that a proper election system is established. It is simply not possible to explain to European politicians that the Trustees are not accountable to anyone and that they can reappoint themselves without a real challenge; yet, of course, European politicians have a legitimate interest in the governance arrangements of the IASCF and the consultative processes and governance of the IASB.

We would like to stress that the question of accountability of the IASB itself is also very important to the European constituency and we elaborate below on that issue and the request for more European involvement.

The constitutional review takes place at a time when the accountability of the IASCF Foundation and the IASB is under scrutiny within the European Council and Parliament. We believe that it would be in the interests of the IASCF to recognise this and for it to come forward with proposals on strengthening the accountability of the Trustees to their constituents, as well as the accountability of the Board to both the Trustees and the jurisdictions that have placed faith in the IASCF to produce accounting standards on their behalf.

We do urge the Trustees to undertake a more fundamental appraisal of these challenges in order to improve the credibility of the IASCF and IASB in relation to key stakeholders.

It is clear from our point of view that the debate has moved very quickly in Europe recently **and therefore we recommend postponing the final decision of the constitutional review and putting forward new proposals to ensure European acceptance.**

We believe that the oversight role of the Trustees needs to be strengthened as part of an improved governance structure for the IASCF/IASB. The proposals for changes to paragraph 16 of the constitution go some way to meet this need, in particular the references to consideration of the agenda and the more specific language regarding the oversight of consultative arrangements and due process. While agreeing that decisions on technical matters should be left to the Board we should like to see a closer involvement of the Trustees in the general direction of standard setting, including the prioritisation of the agenda and ensuring a proper due process including a proper due process on the agenda and on agreements such as the Norwalk agreement. We also believe that oversight should include a review from time to time of the backgrounds and origin of the staff.

We believe that, in the appointments both of Trustees and members of the Board, more weight should be given to countries and regions committed to applying IFRS/IAS and especially to Europe. In particular, we believe that the Norwalk Agreement and the close cooperation on joint projects with the US require a special focus on the composition of the Board not to give a perception to the public that the US has dominance over the development of future standards. (see also our response to issue 5)

We thank the Trustees for the intention mentioned in the proposal to recognise EFRAG as a liaison organisation.

We believe that it would assist the smooth working of our relationship if EFRAG could also be given:

- Observer membership of the IFRIC
- Formal status as a member of SAC (At present, the Chairman of EFRAG's Technical Expert Group attends in his capacity as coming from one of the big accounting firms.)
- A more close involvement in the work of the IASB

Despite the comments and proposals voiced in this letter, we should like to stress that in our opinion the IASB has performed well since the transition from the IASC and we believe that the Board generally is issuing high quality standards. We again underline that we support the IASB as the global standard setting body. We would also repeat that we see the EFRAG-IASB relationship as an important partnership and we want to participate in different ways, one being putting forward constructive proposals to the IASB and IASCF on behalf of Europe.

Appendix 1 to this letter addresses the specific issues raised by the IASCF in its November 2004 Consultation paper.

If you have any questions concerning our comments, please contact Gøran Tidstrøm on +46 8 555 33 099 or Stig Enevoldsen on +32-2 510 08 88.

Yours sincerely,

Göran Tidstrøm
Chairman
Supervisory Board

Stig Enevoldsen
Chairman
Technical Expert Group

**IASCF CONSTITUTIONAL REVIEW
PROPOSALS FOR CHANGE
EFRAG VIEWS ON SPECIFIC ISSUES**

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

As mentioned in our response letter dated 21st June 2004 we have some sympathy for having SME accounting as a specific objective, but it may be equally acceptable that the constitution refers to developing high quality accounting standards that will provide different user groups with high quality, understandable and transparent financial information.

We find the wording proposed for Section 2(b) to be somewhat misleading. The following wording is proposed by the Trustees:

“The objectives of the IASC Foundation are:

(b) to promote the use and rigorous application of those standards, taking account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and”

In our view it is not the development of *those* standards that should take account of the points mentioned, but, rather, development of the standards issued for SME's. In addition we believe that the IASB should not be bound by the constitution to issue “one single set of high quality, ...accounting standards...” because it may decide to issue another set of standards specifically for SME's.

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

We have to express disappointment with the proposals for change put forward in the Consultation paper. It seems as though the Trustees have not attached sufficient weight to the European concerns even though many proposals for change were put forward by many different European organisations. Such an outcome is not satisfactory to the European constituency.

Many organisations proposed finding means to have European constituents more involved in one way or another, but the proposals are, if anything, more in the direction

of diluting the European involvement including the question on the number and composition of Trustees.

The committee has proposed to expand the number of Trustees to 22 members and to change paragraph 7 and delete paragraph 8. We can partly support the change because we support the intention to have more influence from Asia/Oceania, but we have concerns about the geographical composition of the Trustees and we suggest changing the wording so that it states “..six from the Americas..” rather than from North America. We also believe that Europe is still underrepresented given the size of the capital markets in Europe required to apply IFRS.

Issue 3: The oversight role of the Trustees

We would raise the following key issues in relation to oversight and public accountability

- Accountability and public oversight of the Trustees and the Board
- The governance structure
- The composition of the Trustees

We believe that the oversight role of the Trustees needs to be strengthened as part of an improved governance structure for the IASCF/IASB. The proposals for changes to paragraph 16 of the constitution go some way to meet this need, in particular the references to consideration of the agenda and the more specific language regarding the oversight of consultative arrangements and due process. While agreeing that decisions on technical matters should be left to the Board, we should like to see a closer involvement of the Trustees in the the general direction of standard setting, including the prioritisation of the agenda and ensuring a proper due process including a proper due process on the agenda and agreements such as the Norwalk Agreement. We also believe that oversight should include a review from time to time of the backgrounds and origin of the staff.

We believe that the Trustees should make a formal evaluation of the Board’s performance every year and publish it in the Annual Report. We also believe that the Trustees should justify annually how they have ensured that there is a proper balance on the Board including how they have ensured that no region or country dominates standard setting in the world. It is also important that there is an open due process on (re)appointments of Board members. There was no transparent process in the summer of 2004 when several Board members (all North Americans) were reappointed without invitation to other candidates to put their names forward. Such a procedure should not favour existing members and would not be credible for a global organisation; moreover, it cannot be satisfactory to the Board members themselves, who have worked very hard to create transparency for the standard setting process. Such a procedure is not recommended to be repeated.

We believe it is important for the Trustees to ensure that there is an appropriate due process on the agenda prioritisation and, that it is not only the FASB that has influence on this matter. There ought to be a proper balance on the agenda prioritisation, with checks and balances between the constituents, the Board, the Trustees and SAC, so that it is not a matter for the Board to decide in isolation.

We also believe it is a matter of good governance to draw to the attention of the Trustees that standards should always be in full conformity with the Framework or the Framework should be changed. IFRS are now part of the legal system in Europe and therefore they should be predictable and compliant with the Framework Europe accepted when paving the way for the IASB to be the body issuing standards for use in Europe.

We repeat that we do not agree that one of the IASCF objectives should be to foster and review educational programmes. It should be left to professional organisations in that particular field.

Issue 4: Funding of the IASC Foundation

We believe that the funding issue is very important and should be resolved as soon as possible, preferably before finalisation of the constitutional review.

We are not sure that we support the change of the wording of section 14(a), because we believe the Trustees continue to have responsibility for funding, no matter what particular arrangements they are able to put in place. We certainly understand and agree that the IASCF has an issue to be resolved and we have some sympathy for a levy on listed companies to fund part of the accounting standard setting and endorsement mechanisms. However, a levy is only one source of funding, and other sources should also be considered as the standards are also used by non-listed companies.

Issue 5: The composition of the IASB

We do not support the proposed change of paragraph 19, because we continue to support the possibility to have more part timers on the Board, which has been the preferred solution in large parts of Europe for a long time. In our opinion it is possible to organise the work for the IASB to allow room for 4-6 part time members. We also believe that having four to six rather than two part time members would enhance their role and importance, because the workload and the distribution of duties would have to be adjusted. We would not be against a board of 16 with 6 part time members.

An increase in the number of part-timers might also lower the pace of activity – a result that may for many reasons be viewed as positive to avoid the very high level of change which appears to be cumbersome for users, preparers, auditors and regulators who have to implement and live with all the changes.

We also believe that part time members will increase the Board’s understanding of the practical implications of new standards because the part time members should bring practical experience of working with them in real life outside the IASB.

It follows from the above that we do not support that the part time Board members should be required to use “most of their time” on the IASB work, whereas we could support approximately 50 per cent as a sensible share to maintain practical experience as a real and not only a formal notion.

We support the relaxation of the too specific requirements in paragraph 22 for specific backgrounds.

However, we strongly believe that the Board members should have a bias towards experience from countries and regions committed to use and/or implement IFRSs and we believe it is very important that the Trustees ensure that no one country or region dominates the IASB or global standard setting where the IASB is included for instance in joint projects between the FASB and the IASB. In that respect we are concerned about the way the two boards are working with their joint projects, including the convergence project. It seems to be the understanding that the two boards are working more and more as one board when standards are being developed and that is concerning because the composition of the *combined* boards gives a dominant influence to one country in that there is a majority with a US background at the table. If the two boards are working together to converge accounting standards then the two sides converging should be independent of each other.

In addition we find it very important that the Board members should have a greater diversity of experience and background. As countries start to apply IFRS widely, their economic, social and financial experience should be given more substantial weight in the composition of the Board of IASB. This point is important for the ultimate widespread acceptance of IFRS as standards of the highest quality and the future success and acceptance of the convergence project.

Therefore, in future the Trustees should ensure a wider composition with members having more diverse backgrounds, and we reiterate our proposal of having more Board members with background from Europe

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

We support the proposed changes. We do appreciate the reference to EFRAG in the consultation paper and we trust that the IASB will continue the relationship with EFRAG, a relationship we appreciate very much. We are, however, concerned that the Board is downgrading the work with liaison standard setters and organisations other than the FASB, which is not to the benefit of diverse input into the IASB process and is discouraging for the cooperation of the involved parties. We also find it important that the content of the liaison relationship is well defined and described and under oversight of the Trustees.

Issue 7: Consultative arrangements of the IASB

We acknowledge the IASB's recent improvements to the deliberative processes and welcome its initiative, which is a major step in the right direction and far more transparent than most other standard setting organizations.

We would also like to commend the IASB for having in recent months introduced new arrangements aimed at improving practitioner involvement in its work. The establishment of working groups on key projects such as financial instruments, insurance and reporting financial performance marks an intention on the part of the IASB to proceed via a more inclusive approach and constitutes a highly significant development. We also support the intention that these groups should work in an open environment. This should result in an open and engaged dialogue on important issues that can only enhance the quality and authority of the resulting proposals.

We strongly encourage the IASB to extend the comment periods on discussion papers, exposure drafts and draft interpretations to allow time for translation and consideration by those for whom English is not their first language and also to allow time to countries and regions where regulation of accounting rules has not until now been done in the form of independent standard setting.

We recommend that there be a transparent due process on the agenda prioritisation including public exposure and justification for the selected agenda items.

Issue 8: Voting procedures of the IASB

EFRAG believes it is a good proposal to require a supermajority of nine votes to approve a standard. It will show the outside world that the IASB is issuing robust standards, demonstrably broadly supported by Board members and not just a slim majority.

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

We understand that the IFRIC is itself conducting an internal review of its procedures. We welcome such a review and believe it is needed. We are critical of the performance of the IFRIC.

We consider that IFRIC has found itself in a difficult place: between wanting to support principle-based standards, while at the same time wanting to give guidance in areas that genuinely merit guidance. We believe that an open dialogue on European implementation and the sense that there has been a shortage of needed guidance may result in a better understanding of the place of implementation guidance within accounting standards grounded in principle. This may be an area in which the IASB should seek to enlist further support from some of its regional constituents, including Europe. This is something that EFRAG would specifically like to explore with you.

We welcome an open and transparent process in the review of IFRIC's activities, supported by a questionnaire for public comment.

Finally we repeat that we believe EFRAG should be represented as an observer in IFRIC.

Issue 10: The composition, role, and effectiveness of the SAC

We support the Trustees' proposals, including the appointment of a chairman independent of the Board and the staff. We also support specific mention of the liaison between the Trustees and the SAC.

We would like the role of SAC to be enhanced to ensure its importance for both IASB and the SAC. The SAC should consist of high-level members only so that the SAC becomes a litmus test for the IASB agenda and the review of key projects. In that respect we would like to propose increasing the involvement of SAC, for instance by giving the SAC a more formal influence on the agenda prioritisation, so that where a change is made the Board explain in writing why the agenda was prioritised differently from that recommended by the SAC. Having said that, we recognise that the SAC is an *advisory* committee only and should remain so.

The SAC agenda should be important both to the members of SAC and to the Board members and the SAC should comprise really high-level people to get valuable input for the Board and to make participation worthwhile for the members of SAC. Consideration might also be given to having SAC composed of persons with whom the IASB is not otherwise in direct contact .

EFRAG requests formal representation on SAC in the future.