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CHAIRMAN

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N° 140

PARIS, 22 FEBRUARY 2005

Mr. Tom SEIDENSTEIN

Director of Operations and Secretary

IASC FOUNDATION

30 Cannon Street

LONDON EC4M 6XH

Re: Review of the IASC Foundation Constitution : Proposals for changes

Dear Mr. Seidenstein,

The Conseil National de la Comptabilité (CNC) welcomes the opportunity to comment on the proposals put forward by the Trustees to change the IASC Foundation Constitution.

The CNC has, in view of the proposals for changes, to repeat the comments already made in its response dated 11 February 2004 to the earlier IASCF consultation paper (cf. Appendix 1), and which mentioned the following concerns :

- A more balanced representation amongst Trustees and IAS Board members is necessary to take adequately into consideration points of view of current and declared future IFRS appliers.
- Public interest has to be taken into consideration and a mechanism of dialogue and communications with an international body ("a sounding Board") has to be set up.
- The due process needs to be improved.
- Convergence and Framework have to be discussed.

These points were also expressed by the European Commission position that the CNC fully supported.

Regarding the proposals for changes submitted in the IASC Foundation consultation paper dated 23 November 2004, the fundamental concerns expressed by many respondents do not seem to have been addressed.

Indeed, the proposals in question are overall of such an artificial nature that it would seem there has been a concerted effort to pass over the comments made by many respondents in comment letters and during the open meetings held in 2004. The CNC would like to point out that it considers the European concerns have been overlooked by the Trustees, even though nearly all European organisations put forward similar views during the consultation.

As already mentioned in our letter dated 11 February 2004, we consider that it is necessary that strategic and political orientations of the IASCF be discussed outside the sphere of IAS. The current weakness of the structure is the lack of accountability and public oversight. The Board members do not appear to account to anyone and even sometimes to take into account considerations expressed to them, either theoretical, technical or practical. Openness and dialogue are not apparent in the selection of Trustees and Board members. Although some changes have occurred in the recent months, we consider that the present proposals do not resolve these fundamental points.

Moreover, because European listed companies now publish their accounts under IFRS, many questions relating to interpretations of IAS / IFRS Standards remain unsolved or give rise to different implementation. Because the IFRIC does not have the capacity to respond timely to requests, alternative processes have to be envisaged. One possibility is to reinforce the role of standard-setters together with interested parties (preparers, analysts, auditors, users, regulators) who could give in close liaison with IFRIC interpretations of existing standards, whether they relate to purely national issues or if they go beyond national issues in their scope.

I hope these comments will contribute to the success of the reform launched by the Trustees.

If I can help you in any way by providing further information on the points raised above, do not hesitate to contact me.

Yours sincerely,

Antoine BRACCHI

Appendix 1 : CNC comments on specific issues raised in the November 2004 consultation paper "Review of the Constitution – Proposals for changes".

Appendix 2 : CNC comments on the previous consultation dated 11 February 2004 - cover letter

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TOPIC 1 : WHETHER THE OBJECTIVES OF THE IASCF SHOULD EXPRESSLY REFER TO THE CHALLENGES FACING SMALL AND MEDIUM-SIZED ENTITIES

We support the objective to develop accounting standards for small and medium-sized entities and emerging economies because those entities have special needs which fundamentally differ from those of large-sized listed companies. The development of Standards issued for SMEs will facilitate their transition to IAS. However we believe that SMEs and emerging economies should not necessarily be dealt with on identical grounds.

Regarding listed companies, we consider that the IAS / IFRS Standards must apply to all entities, whatever their size, and without any exception.

TOPIC 2 : NUMBER OF TRUSTEES AND THEIR GEOGRAPHICAL AND PROFESSIONAL DISTRIBUTION

We do not support the proposals for changes in the consultation paper, and we consider that the European concerns have not been taken into consideration.

As already mentioned, we consider that the countries who have decided to apply IFRS, and in particular European countries, are entitled to be better represented at the level of the IASCF Foundation. This representation in the IASC Foundation should be essentially based on the distribution of present and declared future IFRS candidates. The standard-setting process has to take into consideration the views of these appliers, and should not be unduly influenced by members who belong to countries that do not intend to apply the IASB Standards, although the presence of some of them, such as the U.S. for example, is necessary.

Expanding the number of Trustees from 19 to 22 members does not resolve these issues. Alternatively, we would suggest that six Trustees be appointed from the Americas rather than North America. If North America does not intend to apply IASB Standards, its representation does not have to be as pre-eminent within the Board of Trustees. We also suggest increasing the number of Trustees appointed from Europe, given the fact that Europe is the most important user of IASB Standards in terms of number and size of companies.

Regarding the selection of the Trustees, no amendment is made to the Constitution and the Trustees remain solely responsible for their own selection. We regret this lack of transparency.

TOPIC 3 : THE OVERSIGHT ROLE OF THE TRUSTEES

The oversight role of the Trustees has to be strengthened in order to improve the governance structure of the sphere of IAS. It is of the utmost importance that the Trustees be better involved in the process of the setting standards and follow the activities of the IAS Board more closely. Because the Trustees are presently totally excluded from matters dealt with by the Board, the current weaknesses of the structure are magnified.

The proposals of the consultation paper do not allow the Trustees to play a greater role in ensuring that the IASB follows due process and to emphasise their oversight function.

In order to resolve weaknesses of the structure, we believe that the following points have to be looked at.

- The agenda of the IASB has to be strongly influenced by the Trustees and priorities expressed after discussion with the IAS Board members and the SAC. It is mentioned in paragraph 16 (c) that the Trustees shall review annually "*the strategy of the IASC Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda.*" We wonder as to what "consideration" means.
The Trustees should have the possibility to add subjects for discussion on the agenda of the IASB, but on the other hand, they should not have the right to withdraw a topic.
- The procedure for selecting IAS Board members has to be improved in order to increase transparency and dialogue. Furthermore, as already mentioned for the Board of Trustees, the representation in the IAS Board should be essentially based on the distribution of present and declared future IFRS candidates. Consequently, the geographical representation on the IASB is necessary to have an understanding of the impact of IFRSs as they are adopted in particular regions, and the Trustees should justify what manner they have ensured that no region, country or culture dominates the standard-setting process.
- Thirdly, more consideration should be given by the Trustees in the processes followed to the determination of the agenda but also in the standard-setting process.
- Lastly, the Trustees should evaluate at least annually the work of the Board.

In paragraph 16 (j), it is mentioned that the Trustees shall "*foster and review the development of educational programmes and materials that are consistent with the organisation's objectives*". The role of the IASC Foundation is not to organise educational activities, even if they can divert resources. For these reasons, we are reluctant to support this proposal until it has been considered in more details.

TOPIC 4 : FUNDING OF THE IASC FOUNDATION

We understand that the IASCF has an issue to be resolved in finding contributions from public and private sources. Whichever funding model is chosen, we consider it important that the independence of the IASCF and the IASB be not compromised in any way.

TOPIC 5 : THE COMPOSITION OF THE IASB

As mentioned in the general comments, a more balanced representation amongst IAS Board members is necessary to take adequately into consideration the points of views of present and future IFRS candidates. The countries who have decided to apply IFRS are entitled to be better represented at the level of the IAS Board.

Regarding geographical representation, the proposals for article 21 mention that *"the selection of members of the IASB shall not be based on geographical criteria"*. But, at present, IAS Board members belong to countries that have an "Anglo-American culture" : five from the United States, two from the United Kingdom, one from Canada, one from Australia and one from South Africa. Only three members belong to Continental Europe whose practices related to accounting regulation are quite different. We consider that this cultural domination influences the work of the IASB and prevents different views to be considered, and that the Constitution must be revised to include a requirement on this geographical representation.

Regarding the professional backgrounds of IASB members, we support your proposals for the new paragraph 22. We nevertheless insist on the fact that it is necessary to avoid the present situation whereby the IASB members are perceived to be divorced from reality. Too much importance has been given to people who have experience in standard setting processes or audit firms. According to the present distribution, Board members are considered arbitrarily to be practising auditors, preparers, or users. We believe that members with a real background of preparers and users should be better represented.

We note that the Trustees propose to conserve the existing limit of two part-time members which we believe is realistic in view of the time-demand from the Board's members.

TOPIC 6 : THE APPROPRIATENESS OF THE IASB'S EXISTING FORMAL LIAISON RELATIONSHIPS

We fully support this kind of formal liaison relationship for ensuring convergence of accounting standards. It encourages the involvement of liaison standard-setters in the IASB work. But we consider that the role of national standard-setters and the process of selecting liaison members have to be more precisely defined in the Constitution.

As already mentioned in the cover letter, many questions relating to interpretations of IAS / IFRS Standards remain unsolved or give rise to different implementation. Because the IFRIC does not have the capacity to respond timely to requests, alternative processes have to be envisaged. One possibility is to reinforce the role of standard-setters together with interested parties (preparers, analysts, auditors, users, regulators) who could give in close liaison with IFRIC interpretations of existing standards, whether they relate to purely national issues or if they go beyond national issues in their scope.

We believe that this issue should be enshrined in the Constitution.

Moreover, we would like more consideration to be given to joint-projects with national standard-setters other than the FASB which may have too much influence on IASB work.

TOPIC 7 : CONSULTATIVE ARRANGEMENTS OF THE IASB

As mentioned in our response dated 11 February 2004, the IAS Board needs improvements in openness in order to reduce a lot of today's technical tensions and misunderstandings on many subjects. The IAS Board would enhance considerably transparency of its procedures by communicating more at an early stage, and in particular with public consultations initiated before

the Exposure-Draft publication. Impact analyses also need to be carried out and the wider economic dimension be considered systematically. Field-testing should become more frequent.

Proposals to improve the due process of the IASB were mentioned in the consultation paper "*Strengthening the IASB's deliberative processes*". In our response dated 25 June 2004, we supported the proposals put forward by the IASB to increase transparency. We look forward to seeing the results of this consultation and hope that these proposals will be set up in the next months.

We fully support a charter of due processes and an annual review of their implementation by the Trustees.

TOPIC 8 : VOTING PROCEDURES OF THE IASB

The Trustees propose that any final IASB decisions will require nine votes out of fourteen. We welcome these proposals but, at the same time, we wonder if this new supermajority system will provide under the present composition of the Board an actual improvement of the technical issues leading to the adoption of a Standard or an Interpretation.

TOPIC 9 : RESOURCES AND EFFECTIVENESS OF THE INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC)

We understand that the IFRIC is conducting a review of its operations and that it plans to publish a document for public comment. We welcome such a review.

Regarding the issue on interpretation, please see our comments in Topic 6.

ISSUE 10 : THE COMPOSITION, ROLE, AND EFFECTIVENESS OF THE STANDARDS ADVISORY COUNCIL (SAC)

We support the proposals for the new paragraph 39 and the fact that the Chairman of the SAC be independent of the IAS Board and the staff.

Nevertheless, we regret that the Trustees do not propose any further changes to the Constitution regarding the composition, role and effectiveness of the SAC. We are concerned that its effectiveness will not be improved while it remains such a large and diverse body with a not sufficiently defined objective.



Appendix 2 : CNC comments to the previous consultation dated 11 February 2004 - cover letter



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N° 84

PARIS, 11 FEBRUARY 2004

Mr Tom SEIDENSTEIN

Director of Operations and Secretary

IASC FOUNDATION

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LONDON EC4M 6XH

Re: IASC Foundation Constitution Review

Dear Mr. Seidenstein,

The Conseil National de la Comptabilité (CNC) welcomes the opportunity to comment on the consultation paper on issues to be considered in the IASC Foundation's review of its Constitution. For the preparation of this response, the CNC has organised a wide consultation in its role of French Standard Setter. The resulting comments are given hereafter.

During the sixth meeting of the Accounting Regulatory Committee (ARC) held on 3 February 2004, Member States and the European Commission agreed to develop a coordinated response to this issue paper. Following this meeting, the Commission elaborated a document which takes into account views and comments expressed at the last ARC meeting.

The CNC fully supports the European Union positions and orientations, as expressed in its contribution signed by Mr. Schaub.

While supporting comments of the European Commission, the CNC also considers some general observations to be of interest. They are described below. You will find solely some additional comments and minor points which complement the European ones on responses to the specific questions raised in the invitation to comment.

1. A more balanced representation amongst Trustees and IAS Board members is necessary to take adequately into consideration IFRS appliers and future IFRS appliers views

The countries who decided to apply the IFRS are entitled to be better represented at the level of the IASCF Foundation and the IAS Board.

The representation in the IASC Foundation and the IAS Board should be essentially based on the distribution of present and declared future IFRS appliers. The standard-setting process has to take into consideration views of these appliers, and should not be unduly influenced by members who belong to countries that do not intend to apply the IASB Standards, although the presence of the few of them, such as the U.S. for example, is necessary. The present paradox which consists in an over-representation of countries that will not apply IFRS has to be modified allowing IFRS major appliers for providing their views more appropriately. In the same way, it will be necessary that the Chairman of the Trustees belong to an IAS applier country / area. The possibility to name a Vice-Chairman as representative of the future IAS appliers should also be considered.

Europe will be the most important user of IASB standards in terms of number and size of companies. It is of crucial importance that European views be properly considered in the international standard setting process. To achieve this objective, an appropriate and full recognition should be given to an European body in the revised Constitution.

2. Public interest and representative "sounding body"

Increasing transparency and quality of financial information is one of the objectives of the IASCF Constitution which are *"to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements (...)"* (article 2 a,).

As far as the IFRS are available all over the world and have a growing influence in a very large number of countries, it is important to make certain of the relevance and the quality of these standards which have to be applicable in the public interest throughout the world.

The G8 delegations declared at the Evian Summit in June 2003 that they *"commit to promoting high-quality, internationally recognised accounting standards that are capable of consistent application, interpretation and enforcement, especially for listed companies"*.

At present, strategic and political orientations of the IASCF are not discussed outside the IAS sphere. There is a lack of transparency in the final decisions. There is also a lack of openness and dialogue in the selection of Trustees and IAS Board members. Regarding the standard setting process, due to the exclusion of Trustees from technical matters, the final approval of a standard falls only to the IAS Board members without any other considerations than purely theoretical and technical views.

The IASC Foundation and the IASB should not elaborate accounting rules without external consultations. Economical impacts should be checked before hand. As a consequence, the adequacy of the IASCF decisions (and IASB work via the IASCF) would better reflect the consequences on the economics of the appliers and the public interest needs.

To achieve the objectives of the present Constitution and to respect the principles of good corporate governance, we suggest that the IASCF Constitution considers a mechanism of dialogue and communications with an international body ("sounding Board") - as for example the G8 or sub-committees of it - whose views should enlighten the IASC Foundation and IAS Board decisions on long-term issues, priorities, problems to be solved, economical impacts of major envisaged new standards, etc.

The future Constitution must also make precise provisions on selection and appointments of Trustees and IAS Board members which have to be based on open international mutual proposals and consultation. In particular, the Boards should not suffer from any cultural domination by any group, especially in accounting matters.

3. The due process needs to be improved

The IASC Foundation objectives have not always been reached, due to a lack in transparency and dialogue in the due process. More consideration should be given by the Trustees in the processes followed. The IAS Board needs improvements in openness in order to reduce a lot of today's technical tensions and misunderstandings on many subjects.

The IAS Board would enhance considerably transparency of its procedures by communicating more at an early stage. The credibility of the due process would be increased if public consultations were initiated before the Exposure-Draft publication. This is particularly true for known potentially controversial issues. The possibility to publish discussion document for public comments on major projects should be generalised. Impact analyses also need to be carried out and the wider economic dimension be considered systematically. Field-testing should become more frequent.

At present, there is a real lack of transparency in the feedback on comment letters received. The response received by constituents from the IASB is only formal. It is very difficult to determine if considerations were given to comments submitted and reasons why some arguments are retained and others rejected. The IASB should elaborate systematically well-argued responses to the recurring main arguments put forward, and global synthesis of comments received. In this regard, Basis for Conclusions and the publication of dissenting views are very helpful to understand the underlying reasoning of approval of the Standard. We insist for the publication of dissenting views to be systematic.

On major technical projects, the due process should include specialist advisory groups to advice Board members on those subjects. Public hearings or round tables to discuss proposed standards either at early discussion stage or during the exposure period for comments should also be recommended.

The publication of a second Exposure-Draft before a standard is finalised is in need to avoid major innovations and fundamental changes be introduced without any final consultation.

Regarding the voting procedures of IAS Board members, they should be revised on the basis of a qualified majority of Board members for both approval and rejection of a Standard. This is particularly relevant if the composition of the IAS Board is not well balanced.

The performance of the Standard Advisory committee (SAC) must be reviewed by the IASC Foundation. During its existence, it did not appear to function properly and didn't seem to bring along effective advice on agenda decisions and priorities, and technical views of the IASB. The SAC is placed under the Chairmanship of the IAS Board which tends to subordinate it to the IASB and makes its existence questionable. "Sounding body" referred above is certainly a better approach.

Regarding IFRIC, its capacity in future to respond timely to requests from IFRS appliers remains an open question. To achieve its main objective to deliver rapidly interpretations of existing Standards, it needs to be equipped with necessary means. If not the case, alternative processes have to be envisaged. IFRIC should entrust at least temporarily and after consultations sub-committees with questions raised on very specific matters, due to national characteristics for example. Nevertheless, questions of basic implementation are not IFRIC's accountability.

4. Convergence and Framework have to be discussed

As noted by the European Commission, a clarification of the objectives of the IASB is a great need. The Commission has retained *"Is it to design at a brisk pace an "aspirational" model implying major jumps in all areas of financial reporting at the risk of issuing standards so theoretical and alien to today's practice that their acceptability will systematically lead to a fundamental questioning of the role and legitimacy of the international accounting standard-setter? Or is it to develop a model based on a thorough examination of practical situations - including where need be against the backdrop of economic impact assessments, capable of achieving a buy-in from all participants, be they investors, preparers, auditors or regulators? Should international accounting standard setting amount to a permanent financial reporting revolution or to a well-understood and accepted evolution in response to economic, technological and social changes?"*

It is essential for Trustees to require a debate on the Framework and certain concepts that underlie IFRS, and particularly the fair value model. The resulting debate should lead to a clear definition of some basic principles and concepts included in the Framework. It should also allow analysis of the economic and practical impacts and others aspects of proposed standards, including particularities of sectors, such as banking and insurance industries.

Furthermore, it may lead to review the convergence approach. While supporting convergence as an objective for the orientation of the work of the IASB, we consider it requires a clearer definition. The nature of convergence which is at least a medium-term objective has so far not been openly discussed. Ideally, a mutual recognition between international accounting standards and other national accounting standards, and particularly the U.S. ones, should establish the IASB Standards' authority. If the objective of mutual recognition cannot be achieved, convergence has to be appropriately defined to include the involvement of all major players and avoid the present questionable influence of the FASB on the decisions of the IAS Board members.

The above comments are made in a constructive spirit and hopefully will contribute to the success of the reform launched by your consultation. We would be very happy to participate in any future debates on this subject if you feel it necessary and remain in any case at your disposal, should you require further explanations.

Yours sincerely,

Antoine BRACCHI