

22.7/01/1

5 March 2004

Mr Paul Rutteman
EFRAG
41 Avenue des Arts
1040 Brussels

Dear Paul,

RE: POST-2005 PRIORITIES

In response to your letter of 30 January, we would like to thank you for giving EFRAG's Founding Fathers the possibility to contribute to the discussions on "Priorities for IASB 'Post-2005' Programme". UNICE attaches great importance to this matter and would like to express the following comments.

At present, IASB is developing standards in accordance with an accounting model that is not in accordance with the existing Framework.

The main departures are:

- removing the probability recognition criterion,
- settling upon fair value as the most relevant measurement attribute in all situations, although the Framework paves the way for a multiple-attribute model,
- deviating from the relevance/reliability balance described in the Framework towards a minimum reliability threshold, without any reflection being conducted as to practical ways and means to determine fair value,
- forcing a 100% asset – liability approach, with the elimination of the remains of the matching concept,
- eliminating recycling of recognised holding gains and losses,
- eliminating the need for external financial reporting to be an extract from internal financial reporting.

These changes have never been put forward through an adequate due process and have potentially very significant impacts on the projects that the Board is actively developing. Such a development would dramatically shake all stakeholders' financial reporting references.

A review of the Framework should therefore be carried out, before any further specific topics are tackled. From the appropriate consultation process that would take place with all constituents, a firm conceptual basis would arise as a foundation for future work.

Such a review primarily encompasses the present "Measurement" project which is still in a research phase but nonetheless influences all proposals put forward by the IASB quite heavily.

In the light of the above background, UNICE recommends that IASB priorities be set such as:

- stop issuing any ED or standard once the 2005 stable platform is available,
- prepare a discussion paper that would put forward the changes that the Board intends to make to the Framework,
- illustrate the changes and their impact on the basis of the conclusions reached for the following projects:
 - o Business Combinations phase 2,
 - o Revenue recognition,
 - o Leases,
 - o Insurance contracts phase 2,
 - o Performance reporting,
 - o Employee benefits,
 - o Financial instruments, and hedging in particular.
- draft an outline of what would be subject for change in the existing standards, once the revised framework is accepted,
- illustrate and demonstrate how those changes meet users' needs.

As this process might be quite a lengthy process, convergence efforts should not be postponed.

IASB and FASB should reach an agreement next April whereby:

- FASB joins in the framework discussion,
- FASB presents a project on how to implement fair value becomes a joint project,
- FASB agrees to suspend all joint projects that would result in increased divergences,
- FASB and IASB extend the short-term convergence project in order to eliminate as many reconciling items as feasible in the time span.

Finally, given the priorities mentioned above and the resources needed to undertake revision of the framework in an appropriate manner, UNICE is not convinced the SME project should be regarded as a priority.

We hope the above-mentioned observations will be taken into account in the response to be submitted by EFRAG.

We remain at your disposal should you need any further clarification.

Yours sincerely,

(original signed by)

Jérôme P. Chauvin

Director, Company Affairs Department

