

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

25 September 2008

Dear Mr Zalm,

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

We have joined in with other European stakeholders in the past to ask that the IASCF would become accountable to the IFRS constituency. We therefore welcome efforts made by the IASCF Trustees into that direction and agree that a Monitoring Group should be set up to create a formal link between the IASCF and public authorities.

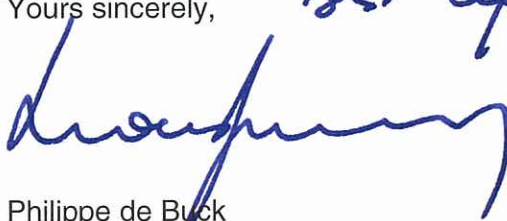
We further agree that the IASCF Trustees should be accountable to the Monitoring Group on how they fulfill their duties as defined and specified in the IASCF Constitution.

However, making IASCF Trustees accountable to public authorities should not impair the independence of the IASCF and of the IASB, or the balance reached in their composition. Nor should it reduce the high level of transparency that the IASCF has been striving to meet in the past years. We therefore have reservations about the proposals set out in this first phase of the Constitution Review:

- 1- Setting a Monitoring Group is designed, we understand, to create a formal link between the IASCF and public authorities. We agree that the IASCF Trustees be assigned the supplementary duty to report to a Monitoring Group. Regarding the nomination process of the IASCF, the role of the Monitoring Group should be focused on a check that the nomination process defined in the constitution is properly followed and that the nomination criteria are fulfilled. In order to maintain an adequate balance between the two bodies, the Monitoring Group would approve nominations. If the Monitoring Group wishes to suggest nominations, those would have to follow the normal process as for any other candidate.
- 2- BUSINESSEUROPE does not wish to put great emphasis on the initial composition of the Monitoring Group in its finest detail. We believe that it is more critical that criteria for the composition of such a group be established to ensure that it is appropriate at all times:

- a. Regional diversity and balance should characterise the composition of the Monitoring Group so that no public authority, either directly or indirectly, may dominate the Monitoring Group; the Monitoring Group should strive to reach a similar geographical balance in its composition as the IASCF;
 - b. Similar balance should be observed in the involvement that members of the Monitoring Group have in ensuring the development and effective functioning of capital markets. From this point of view, regulators should be represented but not dominate in the composition of the Monitoring Group. Regulators have a vested interest in financial reporting standard setting and should not be put in a position of exercising an undue influence on the international standard setter. Public authorities or organisations whose objective is to ensure financial market stability should be active in the Monitoring Group;
 - c. If international and regional authorities or organisations are members of the Monitoring Group simultaneously, the Monitoring Group should not include both the international organisation and some of its regional affiliates. The proposals reflect that *de facto* the monitoring of IASCF is entrusted to IOSCO. This is in our view not appropriate;
 - d. All members of the Monitoring Group should have a high level strategic perspective and be familiar with corporate financial reporting issues.
- 3- Although BUSINESSEUROPE understands and agrees that the Monitoring Group has to be set up as an autonomous body, we believe that the content of its Charter and of its Memorandum of Understanding with the Trustees needs to be defined and that the main principles should be included in the Constitution. Such elements play a role in defining the governance of the IASCF. Making the IASCF accountable to public authorities should not impair the level of transparency in which the IASCF is being governed. The Monitoring Group should in our view adopt similar standards.
- 4- We also include in the attached appendix other comments that we had sent as preliminary views as input to the June 2008 Round – Tables. These proposals have been amended slightly.

Yours sincerely,

Best regards,


Philippe de Buck

Appendix

1- Strengthening the role of Trustees in the IASB agenda

Following the 2005 Constitution Review, BUSINESSEUROPE acknowledges that the Trustees have increased their duties up to *considering* the IASB agenda. We observe that consultations either with the Trustees or with the SAC remain purely formal procedures. As a result, the enhancement of the IASCF public accountability would remain fully inoperative in the area of agenda setting. This remains a high concern for all European stakeholders.

We therefore would encourage Trustees to enhance their duties in this area in order to gain substantive oversight in the agenda setting process.

2- Ensuring proper geographical balance within the IASB

BUSINESSEUROPE supports the efforts and actions taken by the IASCF in order to ensure that proper geographical balance is achieved within the IASB. This has also been one issue raised by many European stakeholders in 2005, without getting at that time an appropriate response.

Before commenting on the proposed extension of the IASB from 14 to 16 members, we would like to raise the two following concerns:

a. Reviewing the IASB – FASB joint arrangements

While we have been – and remain - very strong supporters of convergence efforts undertaken so far by the IASB and FASB, we believe that the existing joint arrangements are creating a very strong geographical unbalance. In addition, these arrangements can impair the quality of IFRS. The necessity of convergence tends to create situations of compromise at the expense of the quality of the final standard. For example, the development of IFRS 3 has led the IASB to introduce an option in their final standard which impairs the quality of the standard.

At a time when the US are considering the adoption of IFRS, working arrangements between FASB and IASB should be continued in a format similar to the arrangements that the Japanese Standard Setter and the IASB have set up. The FASB should become a regular contributor to the IASB consultation process, as all other national standard setters around the world.

b. Ensuring appropriate balance in accounting traditions

History has created strong links between geographical areas, some of which still pertaining, which result in many countries sharing similar accounting traditions. For example, English speaking countries tend to share similar accounting models.

Although we support the introduction of geographical criteria, we believe that their implementation should leave room for ensuring that diverse accounting traditions are well represented within the IASB. This is necessary to ensure that assessment of cost/benefits trade offs and more generally impact assessments are carried out appropriately. As a result we believe that North America and Oceania should form one single geographical area.

c. Ensuring geographical diversity in substance

The composition of the Board from a geographical standpoint should strive to include as Board members professionals whose education and professional experience – and more particularly their most recent experience - have been developed in their countries of origin. This is a condition we believe to bring to the Board the appropriate knowledge of the environments in which IFRS are to be applied. The passport is important but taken in isolation is not a significant factor. We believe that the Constitution should include the necessary guidance from this point of view.

3- Keeping flexibility in the composition of the IASB

BUSINESSEUROPE notes that the proposals leave quite a lot of flexibility in the composition of the IASB:

- to increase the IASB to sixteen members no later than 1 July 2012,
- to have either none or up to three part-time members.

We fully support existing provisions of the Constitution which guarantee that “the work of the IASB shall not be invalidated by its failure at any time to have a full complement of members”. We however believe that once the decision is made, “the Trustees shall use their best endeavors to achieve a full complement” at all times without leaving a transition period open up to 2012. We indeed fail to see the purpose of such a transition period.

The flexibility in the number of part-time members should also be considered. Reasons supporting the inclusion of part-timers should be clearly stated and weighed against the need for practical experience, for independence and for appropriate analysis and consultation on each of the accounting issues tackled by the Board. Trustees would need to make their reasoning in this area explicit.

4- Adjusting voting majorities

BUSINESSEUROPE does not support the proposed voting majorities as they would remain unchanged while the size of the Board would increase. A body responsible for setting accounting standards for the entire world needs to be constrained to publishing high quality standards. If 40% of Board members carefully selected by the Trustees vote against an IFRS, the IFRS should not be deemed good enough for issuance. We believe that the existing voting majority is not yet high enough. Therefore we suggest that the voting majority for an IFRS should at no time be less than two-thirds of the IASB members.



5- Showing high quality due process

BUSINESSEUROPE believes that all bodies in the IASCF and primarily the Trustees should at all times remain compliant with the high standard due processes of the institution. Although a delay in issuing Constitution Review proposals is understandable (present proposals were expected to be issued two months earlier), leaving the planned timetable unchanged at the expense of the consultation process is not showing the IASB and IFRIC the way to follow. We deeply regret that invitations to roundtables at short notice have prevented BUSINESSEUROPE to be represented in the consultation event. We hope that this is not a sign that whatever the outcomes of the Consultation decisions have already been made.
