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PARIS, 11 FEBRUARY 2004

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Mr Tom SEIDENSTEIN

Director of Operations and Secretary

IASC FOUNDATION

30 Cannon Street

LONDON EC4M 6XH

N° 84

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**

## **RESPONSES TO SPECIFIC QUESTIONS RAISED IN THE INVITATION TO COMMENT AND OTHER COMMENTS ON THE IASC FOUNDATION CONSTITUTION**

### **A. NAME AND OBJECTIVES**

*Should there be a specific objective to address the special challenges facing small and medium-sized entities (SMEs)?*

We agree with the European Commission comments, and we would like to add the following ones relating to the French environment and the necessity to define the small and medium-sized entities.

In France, listed companies will use IFRS and not listed companies will have the option to use them for their consolidated accounts. For their individual accounts, French regulation needs to evolve in order to permit it. Nevertheless, the Conseil National de la Comptabilité (CNC) is in the process to converge the French Standards to IFRS over time because it is very important that accounting rules be harmonized. Consequently, in the near future, French SMEs will continue to apply French regulation. That is why we believe this is not an urgent matter to be addressed since it will impair the ability of the Board to finalize the present Standards issues in connection with 2005 deadline particularly.

In the meantime, we think that the complexity of some IFRS and the detailed disclosures required are not adapted for SMEs. A proper balance needs to be found between high-quality standards and the related costs of system changes for companies. That is why, even if not urgent, we welcome the IASCF decision to develop a simplified set of accounting standards for SMEs.

But we consider that the definition of SMEs should be revisited. The indicators to qualify a company of SME should include some minimum quantitative size criterion but also more important presumptive indicators of public accountability. The general objectives of the IASCF Constitution should not address the special challenges facing SMEs until proper terms and characteristics describe the class of entities for which the standards would be suitable. Consideration should also be given to form a group of knowledgeable SMEs people under the supervision of the IAS Board to draft these Standards.

### **C. TRUSTEES**

As mentioned in the general comments, the representation in the IASC Foundation should be essentially based on the distribution of present and declared future IFRS appliers. It means that articles of the Constitution relating to the selection (article 5), the commitment and distribution (article 6), the background (article 7 & 8) and the commitment to the public interest and review of the Constitution (article 18) need to be reviewed.

To provide transparency in the standard-setting process and consistency with priorities of IFRS appliers, 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. In this context, articles of the duties of the Trustees (n° 14, 15 & 16) have to be revised.



#### **4. Number of Trustees**

*Does the potential benefit of expanding the number of Trustees, possibly to accommodate a broader range of views, outweigh the risk that meetings would become more cumbersome and less effective if larger, potentially reducing a strong sense of commitment and participation by individual members?*

We support the European Commission comments.

#### **5. Selection of Trustees**

Please see our general comments (§ 2).

#### **6. Commitment and distribution**

*The Trustees have a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?*

We fully support the EU comments.

We think that the current distribution need review for a more adequate representation of the IFRS appliers within the IASCF, and especially the European countries. If North America and Asia / Pacific region do not intend to apply the IASB Standards, their representation doesn't have to be so pre-eminent amongst the Board of Trustees.

#### **7&8. Background of the Trustees**

*Although a broad distribution of professional backgrounds is clearly necessary, is the distribution enshrined in the Constitution appropriate?*

We agree with the European position.

While defining a number "at large" Trustees offers sufficient flexibility, we consider that preparers and users should be better represented.

#### **11. Appointment of Chairman**

As mentioned in our general comments (§ 1), the Chairman of the Trustees should belong to an IFRS applier country / area. He should be appointed for a limited time, five years for example, not renewable. The possibility to name a Vice-Chairman as representative of the future IAS appliers should also be considered.

#### **14 and 16. Duties of the Trustees**

*The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation. Does there need to be a specific requirement for the Trustees to review the strategy and the procedures of the IASB at intervals?*

We fully support the European views.



## **18. Commitment to the public interest and review of the Constitution**

*Should the language of the Constitution be changed to require a review of the Constitution "at least every ten years" rather than every five years?*

We support the European Commission response.

Please see also our general comments (§ 1 & 2).

## **D. IASB**

As mentioned in the general comments, a more balanced representation amongst IAS Board members is necessary to take adequately into consideration IFRS appliers and future IFRS appliers views. Regarding geographical representation, it is necessary to change the article 21 which mentions that the selection of members of the IASB shall not be based on geographical representation and to insert a special requirement on this matter. Nevertheless, the IAS Board should not suffer from any cultural domination by any group.

About distribution of professional backgrounds, the article 22 has to be revised to introduce flexibility.

## **19. Number of IASB members**

*Should the number of IASB members be reduced to make the Board more workable?*

We fully support the European Commission response.

*Should the part-time positions be eliminated in recognition that the workload of IASB members is heavy and requires substantial time for consultation with interested parties?*

It is necessary to avoid the present situation whereby the IASB members are perceived to be divorced from reality. Nevertheless, part-time positions in a standard-setter body are inappropriate due to the workload and particularly at IAS Board members level. Hence, we consider that a transfer from part-time positions to full time positions has to be considered.

## **20 & 21. Qualifications for the IASB**

The article 21 mentions that "the selection of members of the IASB shall not be based on geographical representation".

At present, IAS Board members belong to countries that have an "Anglo-Saxon culture" (five from United States, two from United Kingdom, one from Canada, one from Australia and one from South Africa). Three members belong to Continental Europe whose practices related to accounting regulation are quite different. One member is Japanese.

As already mentioned in our general comments (§ 1 & 2), the countries who decided to apply the IFRS are entitled to be better represented at the level of the IAS Board. Furthermore, the IAS Board should not suffer from any cultural domination by any group.

Consequently, the Constitution must be revised to include a requirement on geographical representation, without any cultural domination.

## **22. Distribution of professional backgrounds**

*Should the requirement for this distribution of particular professional backgrounds be relaxed in light of the desirability of attracting the best qualified individuals?*

We support the European Commission position.

The IASCF Constitution is too inflexible. Too much importance has been given to people who have experience in standard setting process in audit firms or enterprises. According to the present distribution, Board members are considered arbitrary to be practising auditors, preparers, or users. In reality, the majority of the members has a strong experience as theoricians.

Members with a background as preparers and users should be better represented.

*The IASC Foundation (like other standard-setting organisations) has experienced difficulty in securing the involvement of the analyst and investment community (“users”). Is there any way to encourage that group to increase its involvement?*

We agree with the European Commission comments.

## **23. Liaison responsibilities**

*Does this kind of formal liaison relationship seem important for ensuring convergence of accounting standards?*

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. We also appreciate the new status of liaison standard-setter granted to EFRAG in March 2003. This gives to EFRAG the possibility to express European positions.

*Should special consideration be given to liaison with emerging economies, not currently represented by the existing liaison relationships?*

Special consideration should be given to liaise with emerging economies that will apply IFRS. The IASB should develop a network of correspondents - not necessarily members of the IASB - belonging to those emerging countries.

## **24. Commitment to public interest and the Framework**

Please see our general comments (§ 1, 2 & 4).

## **25. Chairman and Vice-Chairman**

The Chairman of the IASB must not serve as the chief executive of the IASC Foundation in order to avoid possible conflicts.

## **31. Voting on a final document**

Please see our general comments on due process (§ 3) which mention that the voting procedures should be revised on the basis of a qualified majority of IASB members.

## **32. Duties of the IASB**

*The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are listed in more detail in the Preface to International Financial Reporting Standards. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added?*

We fully support the European position and the suggestions made in its response to strengthen the IASB's due process.

Please see also our general comments on due process (§ 3).

## **E. IFRIC**

We fully support the European Commission comments on IFRIC.

See also our general comments (§ 3).

## **F. SAC**

*Are the current procedures and composition, in terms of numbers and professional backgrounds, of the SAC satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?*

We fully support the European Commission comments.

See also our general comments (§ 3).

*Is the manner of selection of the SAC chairman appropriate?*

We fully support the European Commission comments.

See also our general comments (§ 3).