

27 March 2009

IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Comment Letter on IASC Foundation Review of the Constitution, Part 2

Dear Madam, dear Sir

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 49 Swiss groups, including most of the country's major industrial and commercial firms. We very much welcome the opportunity to comment on the above-mentioned Exposure Draft (ED). Our response below has been prepared in conjunction with our member companies.

For us the focal points of the Constitution Review should be to improve the functioning of the IASB's monitoring and due process (1) by subjecting the IASB agenda decisions to public consultation and approval by Trustees, and (2) by ensuring that the IASB's due process is effective. In principle, the due process now meets the highest standards possible in its design, but significant improvement can be achieved in the way it is put into practice by a change of monitoring; and to that end the due process should be controlled substantially independently of the Board itself.

In addition, we believe that a specific Committee of the Trustees should be set up to deal with the next developments of the IFRS for Non Publicly Accountable Entities and that no resources should be dedicated to public or not-for-profit sectors.

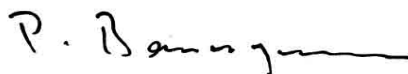
Please see the appendix for our detailed comments and proposals.

Yours sincerely,

SwissHoldings



Dr. Raymund Breu
Chair, Novartis AG



Dr. Peter Baumgartner
Chairman Executive Committee

cc SH Board

Appendix

1. Comments on the outcome of the first phase of the Constitution Review

It is unfortunate that the Trustees did not provide any feedback statement on the comments they have received in their first-phase consultation. We therefore repeat here the following points that they do not seem to have been taken into account in the first phase.

a. Geographical diversity

It is regrettable that the Trustees did not further consider different geographical criteria in order to avoid domination by Anglo-Saxon cultural backgrounds.

b. Voting majority

It is also unfortunate that the Trustees apparently accept that international accounting standards may be issued even though they are at time of publication controversial within the IASB itself. We believe that controversy within the IASB on a standard clearly indicates either that the standard is not of high quality or that it is not applicable without difficulty on an international basis.

2. Eliminating potential contradictions between the necessary independence of the IASB's technical duties and safeguarding the public interest

The Board's independence is important in the performance of its technical tasks – i.e. setting high quality, principle-based, robust financial reporting standards applicable and enforceable internationally.

Because of that need for independence, the Board has up to now been allowed full discretion in setting its own technical agenda, its only duty being to consult with the SAC and Trustees before making any decision. We disagree with this broad interpretation of its independence. Once a project scope is defined and the project is made active, we agree that the IASB should have full discretion in the development of the project. However, we believe that the technical work starts with the development of the project, not with the agenda decision. The public in general and those responsible for economic affairs in particular may have a clear perception of where financial reporting standards should be made more relevant or more effective and of how various needs for improvement should be prioritised. Therefore, agenda decisions should be made by the Trustees following a process of the kind described below:

- agenda proposals should be developed by the IASB, as they are today, but emphasising an evidence-based approach and identifying more clearly why improvement is needed and what the main concrete benefits of improvements would be;
- the IASB should also identify the relative priority given to each proposal, among other proposals or already active projects, according to the practical usefulness for capital market participants;
- those proposals should be subject to public and SAC consultation;
- a separate body - perhaps a strengthened SAC - should formulate recommendations to the Trustees, and fully explain their reasoning if their conclusions differ from IASB's proposals;
- the Trustees should ultimately decide.

3. Enhancing the effectiveness of the IASB due process

Since the IASB's formation, its structure and due process has been constantly enhanced. However, the due process is regarded by many constituents as working neither effectively nor satisfactorily. The consultation process remains rather a formal, check-list ticking exercise, often with little influence on the final outcome. The IASB does not weigh the input it receives as carefully as it should. Quite often the IASB dismisses comments received as "bringing no new arguments" or reflecting that "people have not understood". Often the IASB also disregards relative consensus reached by constituents when that consensus is out of line with its own position, indicating that "numbers are not important". In addition, analyses of comments vary in quality and are prepared and presented by staff who have a vested interest in the project they manage and are subordinated to the IASB.

Consequently we think that the due process should operate on a more independent basis under the responsibility of a separate body, perhaps a strengthened SAC:

- Staff resources would be allocated to that body in order to provide minutes of meetings (SAC and other advisory groups), to prepare analyses of comment letters and conclusions from round tables and also to provide members of the body with high level understanding of the issues at stake in each project;
- The body would form a nominating committee responsible for the composition of IASB advisory groups, following public calls for applications;
- It would receive feedback statements from the IASB, prior to the publication of final standards, explaining why input by constituents has been set aside in the final decisions made;
- Following the final consultation with the body (and with the SAC if different), the IASB would make their final decisions independently.

One point of detail we would like to add, which we feel extremely important, is that the monitoring of the due process should pay particular attention to ensuring that the Board consults with a broad range of capital market participants and that their input is taken properly into account. We perceive that there has recently been a tendency to narrow the focus of consultation with users to representative bodies which may not fully reflect the views of active users at large.

4. Setting up a separate Trustees Committee to be responsible for the IFRS for NPAEs

In their invitation for comment, the Trustees raise the question of whether the objective of the IASC Foundation should be reviewed. We believe that no change should be made. The IASC Foundation has been created to last, its objective is wide and should remain so. The 5-yearly Constitution Review could, however, be the opportunity to identify for the five following years where the IASB should focus its efforts. In that context we believe that the IASB should focus for the next five years solely on the needs of publicly accountable entities. Given that the financial reporting of NPAEs needs to be dealt with in light of at least partly different needs, benefits and costs and that the IASB does not possess the depth of experience of such entities to be able to optimally evaluate the standards required, a specific Committee of the Trustees should be set up for the purpose of updating and monitoring the difficulties of application of the IFRS for NPAEs which will soon be published. This committee could operate as the IFRIC does, except that it would have full authority on the IFRS for NPAEs so long as its decisions comply with the IFRS Framework.

Finally, we believe that the objective could usefully be updated to refer to "Non-Publicly Accountable Entities" rather than to small and medium-sized entities.