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Date : Amsterdam, 17 February 2011  
Re : Comment on 'Paper for public consultation Status of Trustees' Strategy Review'

Dear members of the Trustees,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to the Paper for public consultation 'Status of Trustees' Strategy Review'. Our detailed responses are included in an appendix to this letter.

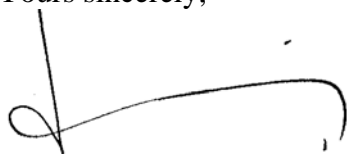
Whilst the Trustees and the IASB can look back on a successful decade in establishing IFRS as the global accounting standard, we believe that in the next few years a period of calm would be in order, more particularly so where a number of important countries are currently in the process of converting towards IFRS. The moment that process has been completed and IFRS has been fully embedded on a truly global scale would be better for a further stage of development rather than now. That period would then also provide the necessary time to evaluate how the IASB should operate in that new environment.

Although we concur with a number of points in the draft comment letter as issued by EFRAG, on certain matters we hold different views, which we have set out in more detail in the responses to your questionnaire. We believe that the questions posed by you have too narrow a focus. They have as their basis the present operational organisation of the IASB and work from there. We think that the future IASB should be discussed and evaluated at a higher level. Where appropriate we have included additional comments on such matters in our responses.

We also refer to our earlier comment letters to you with regard to other reviews the Trustees are carrying out, i.e. on the Annual Improvements Process and on the IFRIC. In our opinion, these three reviews should be evaluated together, because there are linkages and interactions between the three. At least it would be our recommendation to the Trustees to look at all aspects of the IASB at the same time and not re-deliberate certain aspects in isolation. We have increasing concerns about this aspect, particularly where the Monitoring Board has recently released its own consultation document, which in our view has other potential overlaps with the Trustees' review.

We would be happy to discuss our comment in more detail with you, should you so wish.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'H' and 'M' connected by a long horizontal stroke.

Hans de Munnik  
Chairman Dutch Accounting Standards Board

Appendix:

- Responses to the questions on 'Paper for public consultation Status of Trustees' Strategy Review'

## APPENDIX – RESPONSES TO THE QUESTIONS ON ‘PAPER FOR PUBLIC CONSULTATION STATUS OF TRUSTEES’ STRATEGY REVIEW’

### **MISSION**

*How should the organisation best define the public interest to which it is committed?*

- 1. The current Constitution states, “These standards [IFRSs] should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world’s capital markets and other users of financial information make economic decisions.” Should this objective be subject to revision?*
- 2. The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?*

### **RESPONSE OF DASB**

#### **Response to your questions**

1. Yes, the objective should be subject to revision.
2. Reconciling the two perspectives should not be a primary objective.

#### **Mission and objective**

DASB is of the opinion that the objective as currently stated in the Constitution is still appropriate. Nevertheless, we agree with EFRAG that it would be better when that objective is aligned with the Conceptual Framework by adding Stewardship, i.e. the accountability of management for the resources entrusted to it. The financial statements should still provide information that is useful in assessing the stewardship role of management. Stewardship is both focused on past performance and on how the entity is positioned for the future. We agree with EFRAG that stewardship has historically been an important reason for producing financial statements in Europe and still is.

DASB strongly believes that it is important to determine how this mission is translated into future activities. There are in our experience many that have critical comments on the existing set of IFRSs, such as:

- 1 the standards are too complex;
- 2 the standards are too much rule-driven;
- 3 increasing application of fair value;
- 4 insufficient alignment with the conceptual framework; and
- 5 the decreasing acceptability of significant changes and new standards as IFRS-adopters have the feeling that they are not being heard in the development and comment process.

Such comments sometimes also raise the question to what extent financial statements under IFRS are still believed to meet the “true and fair view” objective and the needs of stakeholders. Does the increasingly rigid set of rules, that IFRSs appear to have become, result in a “true and fair” view in a situation that confirms that all rules have been complied with? Hedge accounting, impairment of financial instruments and IAS 19 come to mind as examples of this issue, but there are many others.

Whilst independence is a primary aspect of the IASB function, the ability to listen to signals from stakeholders and provide an adequate response to concerns raised is and will be an important driver for continued support of IFRSs. We believe that that aspect requires ongoing attention.

### **Other points for improvement**

To fulfil the objective and to provide a true and fair representation through economic reality of financial reporting, the following should in our view be taken into consideration:

*1. Standards should be principle-based*

Over the last few years there has in our view been a drift towards more rule-driven standards; we think that trend should be reversed. Standards on their own cannot provide an answer for any conceivable situation and there should be no attempt to do so. Some standards include language that is directed at potential abuse; we do not think that anti-abuse should be a factor in drafting standards.

We also note that there is a tendency to amend standards for what we perceive to be single (country) issues. Examples thereof are the recent changes in standards related to deferred tax and hyperinflation. With the wider adoption of IFRSs on a global scale there is a significant risk that such issues will play a more pervasive role. In our view these are examples of the fact that standards should be more principle-based, i.e. capable of accommodating the resolution of such issues rather than requiring amendment.

*2. Convergence with US GAAP should not be the primary objective*

DASB agrees with EFRAG, noting that convergence with US GAAP is no longer sustainable; the emphasis should be on the adoption of high quality global financial reporting standards and as a result the convergence agenda should not have first priority anymore. Against this background, the perceived need to complete a number of proposed standards that are currently in process by the June 30, 2011 deadline should be reconsidered. We have the feeling that that deadline sometimes appears more important than the contents of the proposed standards.

*3. Interaction with other public policy concerns should not be the primary objective.*

In our view accounting standards should stay focused on the stated objective. If these align with other public policy concerns, such as for instance financial stability requirements, so much the better, but those concerns should not become the primary driver for drafting accounting standards. Incorporating public policy requirements should always be reviewed with the stated objective in mind. Otherwise there is a real risk that standards will become overcomplicated and potentially confusing.

## **GOVERNANCE**

### **How should the organisation best balance independence with accountability?**

3. The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?

4. Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body. Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities)?

## **RESPONSE OF DASB**

### **Response to your questions**

3. No, we believe the current (governance) structure should be changed significantly.
4. Yes, we believe further steps to bolster the legitimacy are required.

### **Governance**

It is DASB's opinion that the success and acceptability of IFRSs as the global reporting standard depends significantly on how the governance of the IASB is organized. Stakeholders - preparers, users and auditors of financial statements - and public authorities should have confidence in the way the organisation fulfils its objective. We question whether the current governance model is still appropriate to 'show' or 'prove' to stakeholders that the output has been achieved in a balanced and independent manner. DASB is of the opinion that there is only sustainable support for the IFRSs when stakeholders believe that their opinions and comments are (seen to have been) carefully considered in the due process. There is currently no independent oversight of the appropriateness of that due process.

As a consequence of our analysis above we want to stress the need for a change of the current governance structure, and we believe that that moment has come now. A change is necessary to maintain the confidence and support of all stakeholders.

### **Points for improvement**

In many countries IFRSs are effectively embodied in law. That is certainly the case in the Netherlands, where the ultimate decision on the appropriate application of IFRSs in financial reporting, if challenged, is with the courts. As a consequence, there can be little argument that the IASB due process should have a comparable form of parliamentary checks and balances. In fact, within the EU, but also in other countries, there are existing endorsement processes to achieve that goal. The real question is whether the IASB against this background should not opt for a single endorsement process at a global level. That would avoid timing differences in adoption between countries and also potential carve-in or carve outs.

We believe that it will be challenging to achieve an endorsement model that will be globally accepted and whereby all stakeholders are represented, but there are existing examples of (global) organisations with working models. Examples thereof are:

- World Bank, whereby the highest organ, the Board of governors, is a representation of all participating countries. Some countries are represented in a group by one person in this body (indirect representation).
- Security Council (United Nations), with 15 members split into 5 permanent members and 10 members that are elected for a period of 2 years. There are criteria (geographical) regarding the election of the 10 members (every year 5 new countries) in such a way that all countries feel represented.

There are other examples like the ECB, EFRAG or our own board, which all have elements that may be usefully considered in such a new structure.

We are not suggesting that any of the above models are necessarily fit for purpose for the IASB, but it should certainly be possible to achieve a sensible arrangement whereby the IASB due (endorsement) process is scaled up to match the global reach of IFRSs.

## **PROCESS**

How should the organisation best ensure that its standards are high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world?

5. Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work programme?
6. Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?

## **RESPONSE OF DASB**

### **Response to your questions**

5. No, we believe the standard-setting process is in need of changes.
6. No, we believe that consistent application and implementation are not primarily the responsibility of the IASB.

### **Process**

DASB is of the opinion that the IASB is responsible for high quality global accounting standards only. It should not be responsible for the consistent application and implementation of the standards per se.

Consistency between countries and entities will be achieved by the functioning of the capital markets and the supervisory authorities. Consistency in application and implementation should only be an issue for the IASB when adoption in practice results in difficulties that would require clarification of the standard as written. In that connection we also refer to our recent comment letter on the operational efficiency and effectiveness of the IFRIC, in which we have questioned the need for the present IFRIC and suggested another operating model. In this context we also believe that if the current endorsement practice, as discussed under Governance before, is continued in various countries (and it may increase significantly with other countries joining) there should be some level of monitoring at the IASB to ensure that the consequences of any potential carve-in or carve-out are dealt with expeditiously. That

monitoring function should also extend to local court decisions, if any, that result in divergence in interpretation and application.

Early identification of potential issues that may impact implementation should in our view have a much higher priority as an integrated part of the whole standard setting process. The recent request by the IASB on effective dates is an excellent example of the fact that implementation issues are only identified at the end of the process rather than considered as part of the whole process. In our view the IASB should structure an implementation framework in order to avoid the late discovery of issues that make implementation in practice difficult or unachievable within the originally intended timeframe.

### **Points for improvement**

We have already commented on certain aspects of the IASB due process before and argued that it should be amended. Our other main concerns and suggestions for improvement are:

#### *1. Agenda of the organisation*

To achieve the objective it is important that the activities are aligned with the objective. In our opinion the preparation of the agenda should be part of a different organization model as explained under our views on the governance of the organisation.

#### *2. Request for comments on new standards*

The transparency of the comment letter process should be improved. It is unclear to many how comment letters are weighted in terms of ‘content’ and terms of ‘number of comparable comments’. Whilst feedback summaries and outreach sessions that have become a relatively recent feature of the IASB process have been welcomed, the eventual outcome of the due process is still viewed by many as somewhat of a ‘black box’ experience. In our opinion, the rejection of serious concerns raised should receive more emphasis when issuing a final standard, particularly with regard to the arguments underpinning the IASB decisions on such matters. We have been informed at times that when comment letters bring no new views but only re-iterate concerns that the IASB has already considered in an earlier phase, such comments will not be re-considered in the final deliberations by the IASB.

In our view, IAS37 is a good example of these issues. The draft was rejected by virtually all commentators on the basis of very similar comments but it took years before the IASB finally accepted the merits of those comments and as a consequence put the draft in a re-deliberation phase.

#### *3. Pre-impact studies*

Any new standard and/or significant changes in existing standards should be preceded by pre-impact studies as a matter of course. Recent experiences with the leasing standard and the financial presentation standard have shown that application in practice is far more complex than expected.

In a similar vein, we believe that the costs and benefits of major changes should be assessed in an earlier phase and be better supported by impact studies.

All such studies should be a generic part of the whole standard setting process as an element of the disclosure framework, which we discussed above.

#### *4. Discussion papers*

For significant changes in existing standards or major new standards the use of discussion papers should be the preferred choice. However, to ensure appropriate time for debate and discussion on the subject, we believe that comment periods should at least exceed a year and preferably run to two years. We refer in this matter to the discussion paper regarding leases, where the ‘discussion-time’ was only four months.

#### *5. Accessibility of standards*

IFRSs are largely numbered in the chronological sequence of their creation. The accessibility of standards would be much improved if IFRSs would be more logically re-ordered by subject. The SME standard provides an excellent example of this and we understand that FASB is undertaking a similar project.

#### *6. Balance between theory and practice*

There is some belief that there should be a better balance between theory and practice in the standard setting process. Theory is important and should continue to challenge, but on the other hand standards should also be practicable and meaningful. There is a feeling that some of that balance has been lost. The trustees should contemplate whether the right balance can be achieved through a different composition of the IASB itself or through a standard setting process that is geared toward a better balance in this respect.

We have already argued for a period of calm given all the major projects which are now in place as well as the fact that a number of important countries are in the process of converting to IFRS. Some of the standards will also require significant system changes in companies. Against that background, time is needed for companies and countries to adopt and adjust. That leaves no room in the next few years for other material changes in standards or new standards for that matter, except for the necessary ‘maintenance’ of existing standards. That time might also be used for re-ordering standards by subject as suggested above.

Furthermore, we also support EFRAG’s suggestion to introduce a system of making changes only at periodic intervals, unless there is a pressing need for changes to be made immediately. This periodic interval could for example be a review of each Standard every 5 years, and for newly implemented Standards for the first time 2 years after implementation.

#### **FINANCING:**

How should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?

7. Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?

#### **RESPONSE OF DASB**

##### **Response to your questions**

7. Yes, we believe there are ways to ensure more automaticity of financing.

##### **Financing**

DASB is of the opinion that all countries that permit or require the use of IFRS should contribute to the organisation in such a way that the organisation can operate effectively and efficiently, particularly so as IFRSs are replacing local regulations in this respect. However,



that would in our view also require changes to the governance model. There can be no "taxation" without representation.

Within that changed governance model global budgets can be approved and these can be charged out. The best sharing base between countries is probably 'Gross Domestic Product' but perhaps 'Market Capitalisation'. should play a role as well. There could be a mixture of attributes to come to a fair cost sharing model. There are obviously other issues, such as for instance currency fluctuations, but these are practicalities that can be worked out.

#### **OTHER ISSUES**

##### **8. Are there any other issues that the Trustees should consider?**

Yes, we believe that there is one other matter the Trustees may wish to consider and that is location. With the global reach of IFRSs the IASB should be linked in as much as possible with the reporting and user communities across the world.

Considerations in this respect are:

- 1) Whether that requires the continuance of one office or the establishment of multiple offices?
- 2) If there is a preference for one office, should the present location be continued or re-considered?

With an organization that in a few years will be operating on a truly global scale those questions are appropriate to pose. Cost efficiencies obviously play a role, but global support is in this context equally if not more important as well as the link with major economies around the world. Other global organisations have faced this question and we believe it would need an answer in this case as well.