

IFRS Foundation
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IFRS Foundation: Paper for Public Consultation - Status of Trustees' Strategy Review

Representing preparers' point of view, the Swedish Enterprise Accounting Group (SEAG) welcomes the opportunity to comment on the above-mentioned 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?*

According to the Framework, the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential providers of capital in making decisions about providing resources to the entity. Further on, it is stated in the Framework that other parties, such as regulators and members of the public other than investors, lenders and other creditors may find the information in general purpose financial reports useful. However, the reports are not primarily directed to these other groups. We strongly believe that focus should be on information to providers of capital and other users active in the capital market (e.g. analysts) and this should, according to our view, be defined as the "public interest". We believe that there is a risk with a broad definition of "public interest" since this can open up for using general purpose financial reports as a tool to achieve other, i.e. political, objectives than to provide information to capital markets.

We also would like to strongly emphasize that the preparer-user communication perspective of financial reporting should be regarded as important for the development of standards from the IASB. This perspective seems to have gotten lost somewhere in the process due to the fact that the views of preparers to a large extent have been ignored. We support the efforts from the Board to increase user participation in the standard-setting process, but in order to have a balanced view on communication, we believe that it should be clarified that preparers

are an important group of stakeholders with a legitimate interest in the standard-setting process. Companies are also users of financial information and therefore have a strong interest in high-quality standards.

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?*

We strongly believe that financial stability should not drive financial reporting. Clearly there is a risk for political intervention or pressure on the IASB to address financial stability or other problems, as can be seen from the latest financial crisis. In our opinion, high-quality financial reporting usually is conducive to financial stability. We are concerned that political decisions about stability might prevail over the need for high-quality reporting.

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?*

We believe that it is very important that the private sector is represented in the appointment and monitoring process of the IASB and we therefore believe that the Trustees should have the responsibilities as set out in the Constitution also in the future.

The Monitoring Board serves, according to paragraph 18 of the Constitution, as a link between the Trustees and public authorities, based on the idea that this structure should replicate, on an international basis, the link between accounting standard-setters and public bodies overseeing standard-setters. We agree that there is a need for such a link on the international level.

The role of the Monitoring Board, although defined in the Constitution and further clarified in the Charter of the Monitoring Board and the MoU between the Monitoring Board and the Trustees, is unclear in reality. The MoU e.g. states that the Monitoring Board might refer accounting issues to and will confer regarding these issues with the Trustees and the IASB Chair. It is very unclear how this will work in reality and how this will impact the IASB. We are concerned that this creates a difficult situation for the Trustees, as the “guardians of the IFRS Constitution”. One major question is if the creation of the Monitoring Board is strengthening or weakening the independence of the IASB. We therefore believe that the role of the Monitoring Board as “second line of defense” for the independence of the IASB should be clarified.

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)?*

Neither the IFRS Foundation nor the IASB derive any formal political endorsement from political or public bodies. On the other hand, by endorsing IFRS in a country or in a region, the political systems in such countries or regions are giving legitimacy to the IASB. One way of strengthening the public accountability could be to institute a system where the members of the Monitoring Board are appointed by an international organization (e.g. IOSCO). But given the current composition of the Monitoring Board, this might not be a feasible solution since it is quite clear that also national (US and Japan) and regional (EU) perspectives are represented in the Monitoring Board today. If also national and regional “endorsers” or “potential endorsers” should be represented, the process of electing members to the Monitoring Board should mirror the adoption of IFRS around the world and not only the interests of the EU and certain countries.

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?*

The IASB has given priority to convergence with US GAAP over the last years. In our view, converged standards have become a goal to themselves for the Board. But convergence with US GAAP does not automatically lead to high-quality standards. Instead of giving priority to convergence with US GAAP, the IASB should therefore in the future focus on adopting high-quality standards.

The process of adopting high-quality standards should be based on the needs of capital markets and on practical solutions to financial reporting problems, using an evidence-based approach. Also, the IASB should perform much better cost-benefit analyses and should, before putting projects on the agenda, take cost-benefit considerations into account. Today the IASB acts like improvements always are necessary regardless of the cost to implement new standards for preparers.

With regard to priorities, the work plan has obviously been far too ambitious and the problems showing up right now are a clear indication of this. One example of those problems is the re-orientation of projects which to us is an indication that the IASB is struggling with its priorities and also with the technical solutions to the perceived problems.

An indication of this is the increased but unclear role of Staff Papers, often published after that an ED has been published. The use of Staff Papers has no backing in the Constitution and this causes confusion for preparers. An ED should be drafted in such a way that the proposals can be adopted. This is because for a preparer, training of management and staff and preparations for process and system changes must start as soon as possible when the IASB has taken the principal decisions. Those should be found in the ED. To prepare major changes in a large company, having integrated systems (including logistics, production etc), often takes significantly more than one year. Any major changes in relation to an ED should therefore be treated through a re-exposure, following the standard due process for an ED, not

through Staff Papers that are not necessarily reflecting the views of the Board. This is especially important if major changes are proposed to an ED that dates back in time.

We believe that the new requirement in paragraph 37 (d) of the Constitution to carry out a public consultation every three years regarding the agenda is a major step forward in the standard-setting process. It is vital that the IASB motivates its agenda decisions after such consultations.

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?

According to our view, consistent application does not mean uniform application. We believe that consistent application and implementation can be enhanced through increased coordination between supervisory bodies. But we are concerned that supervisory bodies might prefer rule-based standards or detailed guidance, which would be in conflict with a principle based approach. We therefore believe that the IASB best can address the issue of consistent application and implementation by adopting high-quality principle based standards.

We are pleased to be at your service in case further clarification to our comments will be needed.

Yours sincerely,

CONFEDERATION OF SWEDISH ENTERPRISE

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The Swedish Enterprise Accounting Group (SEAG) represents around 40 international industrial and commercial groups, most of them listed. The largest SEAG companies are active through sales or production in more than 100 countries.

Total net turnover of SEAG companies: 245 billion EUR

Total assets of SEAG companies: 335 billion EUR

Total number of employees in SEAG companies: 950 000