



Association pour la participation des
entreprises françaises à l'harmonisation
comptable internationale



Mouvement
des Entreprises de France
MEDEF

A F E P

Association Française des Entreprises Privées

IASCF
Constitution Review
30 Cannon Street
London
EC4M 6XH

Paris, September 19, 2008

Ref: IASCF Constitution Review

Dear Sirs,

ACTEO, AFEP & MEDEF welcome the opportunity to comment on the IASCF Constitution Review.

Along with other European stakeholders, we have been calling in the past for greater accountability of both the IASCF and the IASB. We therefore welcome the present move by the IASCF Trustees to create a link between the IASCF and public authorities responsible for "the adoption or recognition of financial reporting standards and international organisations, with a mandate that includes facilitating the development and effective functioning of capital markets".

We approve of the creation of a Monitoring Group that would operate as a Supervisory Board of the IASCF Trustees. We however suggest additional improvements to the constitution:

- ☐ Concerning the composition of the Monitoring Group; we believe that the Group should include other international organisations with a mandate to ensure worldwide financial stability, as well as the bodies representing prudential supervisors, while respecting proper geographical balance.

- ☐ A MoU will be agreed between the Board of Trustees and the Monitoring Group to define the terms of reference of the relationship between the two bodies. We acknowledge the need to include provisions regarding this MoU in the IASCF Constitution in order to formalise and encourage the relationship between the Board of Trustees and the Monitoring Group. To this end, the Constitution should clearly highlight the principles underlying the main responsibilities of the Monitoring Group :

- Participating in the process for appointing Trustees according to the Constitution ;
- Ensuring that the Board of Trustees fulfils its responsibilities concerning its constitutional commitments ;
- Monitoring the supervision of the Trustees over the standard-setting process ;
- Exchanging views with Trustees on subjects of general interest concerning the IASCF supervision over the IASB.

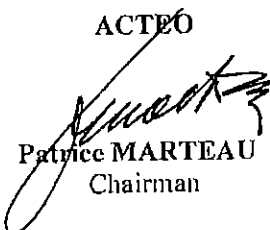
- ☐ Moreover, we welcome the Trustees' recommendation that the MoU between the Monitoring Group and the Board of Trustees be subject to public consultation before its completion.

- ☐ Concerning the nomination process of the IASCF, the Monitoring Group would have to validate that the nomination process as defined in the Constitution is adequately followed and would approve the nomination of trustees. We believe that setting up the Monitoring Group as a Supervisory Board of the IASCF creates the appropriate level of accountability of the IASCF Trustees to public authorities. In our view if the Monitoring Group wishes to suggest nominations to the Board of Trustees, the proposals should be put forward to the Board and should follow the same process as for other candidates. Besides, the criteria for appointing the Trustees should ensure an appropriate balance of backgrounds within the Board and continue to be a guarantee of their high profile.

With respect to IASB members, it is in our view essential that they have an active professional practical experience immediately prior to their appointment. In addition reducing the total number of years that an individual can serve on the Board from 10 years to 6 would also contribute to keeping Board members familiar enough with the business activity context.

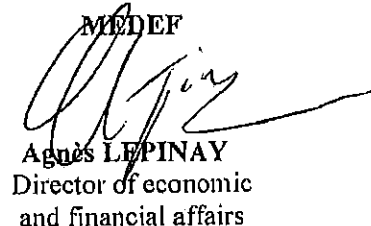
More detailed comments on the proposals are set out in the appendix to this letter,

We remain at your disposal should you need further clarification or background information.

ACTEO

Patrice MARTEAU
Chairman

AFEP

Alexandre TESSIER
Director General

MEDEF

Agnès LEPINAY
Director of economic
and financial affairs

Appendix to the ACTEO, MEDEF & AFEP letter of comments on the "IASCF Constitution Review"

Our detailed comments are set out below, following the invitation for comments.

QUESTIONS RELATED TO THE MONITORING GROUP

Question 1

Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions?

As indicated in our cover letter, we, as many European stakeholders, have been calling for a greater accountability of the IASCF in general and of the IASB in particular. We therefore welcome the principle of a link of public accountability to official institutions.

While we approve of dealing with those very key and important matters as a priority, we welcome the recommendation in paragraph 16 of the consultation document that the memorandum of understanding between the Monitoring Group and the Trustees should be subject to consultation before its completion, as it plays an important role in the governance of the IASCF.

Question 2

The proposals contemplate a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognising that the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group's membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.

We believe that the Memorandum of Understanding between the IASCF and the Monitoring Group should preferably be prepared and open for consultation before completion of the Constitution Review of the IASCF. The Monitoring Group, as the Trustees recognise, needs to be set as an autonomous body. At the same time in order to have a comprehensive view of the governance architecture, the ways in which the IASC Foundation interacts with the Monitoring Group, should preferably be defined before completion of the IASCF revised Constitution. This might as well apply to the charter of the MG.

We also believe that the proposed initial composition of the Monitoring Group is not well balanced. The Monitoring group membership as proposed gives a strong emphasis to some regulators/ policymakers only, resulting in a risk that all public policy issues are not properly or timely referred to the IASC Foundation. In particular we believe that prudential supervisors and other organisations with a mandate to ensure financial stability should be asked to participate in the Monitoring Group.

Question 3

The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRS to review the Trustees' fulfilment of their constitutional duties. Does the formulation of the Monitoring Group's mandate and the Trustees' reporting responsibilities, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?

We approve of the mandate of the Monitoring Group as described in paragraph 19. We indeed believe that responsibilities and authority described in paragraph 19 are sufficient to create an appropriate level of accountability of the IASCF Trustees to public authorities.

The Monitoring Group would however have the responsibility to ensure that Trustees fully comply with the Constitution and in particular with the current selection criteria in carrying out the appointment process and their oversight functions regarding the IASB due process (impact assessment).

Question 4

Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group in the selection of Trustees? If so, what should be the role and composition of the Trustees Appointments Advisory Group?

In view of our answer to question 3, we believe that the Trustees Appointments Advisory Group is no more needed.

QUESTIONS RELATED TO THE IASB'S COMPOSITION

Question 5

Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy?

Yes, we do. We indeed support all efforts made to increase and improve the IASB consultation and liaison processes. We support the analysis provided in paragraph 25.

Presently it seems that the IASB tends to rely heavily on members originating from one area to liaise and consult with organisations or public officials of that area. For example Board observers in EFRAG meetings tend to be most of the time IASB members of European origin. We believe that the IASB consultation processes should expose much more often IASB members to areas from which they do not originate, in order to increase a wider and broader understanding of different thinking modes and diverse economic contexts.

Question 6

Do you agree with the geographical formulation suggested by the Trustees?

We agree with the introduction of geographical criteria for the composition of the Board. We had already called for the introduction of such criteria when commenting on the 2005 Constitution Review.

These geographical criteria are necessary in our view to provide the necessary diversity within the Board reflecting various accounting backgrounds and economic contexts. For that reason we do not think that the Trustees have set the most relevant composition. History has however created strong bonds between different geographical areas with possible common ground for accounting traditions and language. We believe that those bonds should be taken into account in the composition of the Board. As a result we believe that Oceania should be considered as closely related to North America.

Question 7

The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?

Selecting part-time members seems appealing as it brings to the Board members which keep active professional experience with IFRS. However we believe that part-time raises two difficulties that should be addressed:

- part-timers cannot fully meet the need for independence, even if they are called to pledge to serve public interest above all interests in making their decisions; only academia or users are best kept away from conflicts of interests;
- part-timers do not have the ability to liaise and consult as appropriately as other Board members. As indicated above we believe that proper understanding by Board members of contexts to which they are estranged is beneficial to standard-setting and that understanding requires time. Part-timers and full timers have indeed exactly the same amount of technical work and analysis to perform.

In addition to the above-described difficulties, the benefit of extending the number of Board members would be at least partly lost if the number of part-timers in the Board were to grow.

To appoint Board members of which immediate prior occupation was active professional practical experience with IFRS is in our view essential to ensure the necessary knowledge within the Board. Last appointments decided by the IASCF Trustees appear to be quite successful. In addition reducing the total number of years that an individual can serve on the Board from 10 years to 6 would also contribute to keeping Board members familiar enough with the business activity context.

Due process of the first part of the Constitution Review

- Although the first preparatory steps of the Review are behind schedule, the expected date for completion has remained unchanged, at the expense of the public consultation stage (invitations to Round Tables at very short notice, very time left for comments – in the middle of the summer season for the North hemisphere - after publication of the proposals).
- The significance of the public consultation might appear to be reduced and therefore leave the feeling that the consultation process does not enable all views to be taken into consideration.

We strongly recommend the IASCF to continue to build up on the improvements in due process and public consultation achieved in the past years.

Voting rules

A strong supporting consensus within the IASB is necessary in our view to issue high quality standards. As a consequence, we believe that the publication of an IFRS or IFRIC should be supported by no less than two thirds of the Board. We had already advocated in favour of such a majority threshold when commenting on the 2005 Constitution Review.

Due process in the preparation of standards

For the past two years, the IASB has tended to reduce public deliberations of the Board and substitute meetings in sub-groups with the staff to discussions with the full Board. We believe that this trend has to be reversed as it impairs both transparency and efficiency. While deliberations in public are truncated, staff has to undergo successive meetings with the same agenda in order to consult with the entire Board. This process leads to also a loss of relevance, as all Board members are not made aware of the thinking and arguments of each other.

Board advisors

A selection of IASB members (and FASB members on joint projects) are entrusted the responsibility to guide and advise the staff in the development of projects. While we believe in the effectiveness of such settings, we believe that the composition of those groups of advisors should be made public along with the reasons supporting the selection.

Consultative groups

In the past years, the IASB has developed public consultations with various stakeholder groups intended to be representative of users and preparers. We strongly support these developments and commend the IASB for their initiatives in these areas. We believe however that the legitimacy of those groups has to be established and that their composition and operating procedures should be approved by at least some of the professional organisations – users or preparers – with which members of those groups are supposed to liaise on a regular basis.