Dear Mr Wong,

The Commission bancaire and the Banque de France welcome the possibility to comment on the consultation paper, *Review of the Constitution, Proposals for change*, released in November 2004. We have a strong interest in promoting sound and high quality accounting standards to be applied to the banking and financial industry, as well as transparent and comparable financial statements that would strengthen market discipline. Ultimately, these objectives are key components of the stability of the global financial system.

Thus, as already stated in our response dated February 2004 to the previous consultation, we consider that the work of the IASB and of the IASC Foundation is of major importance. This is true in particular for the European Union, which accounts at present for a very large proportion of IFRS appliers. In that context, it is of particular importance that both the structure and organisation of the IASCF and the IASB allow for a significantly higher level of dialogue and representation of their constituency. These preoccupations were expressed by a large number of constituents in their replies to the first set of consultation or during public hearings. In that respect, we are concerned that the proposals set out in the present consultation paper might leave these preoccupations unanswered.

Please find enclosed our general comments and answers to specific questions of the Consultation document.

Yours sincerely,

Christian NOYER

Mr Erik Wong
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General Comments

Definition of users

As described in section 2(a) of the Constitution, an objective of the IASCF is to satisfy the needs of the world’s capital markets’ participants and other users to help them make economic decisions. We believe it is of utmost importance to take into consideration that users of financial statements should not be viewed as only investors and analysts and are much more diverse, especially because accounting standards apply in different environments, with different structures of financial systems. There are many other significant stakeholders, such as financial institutions and supervisory authorities that are interested in financial information. The objective of the IASCF should be to meet the needs of all these different users and constituents and thus to take all their views into account. In particular, it should be noted that the emphasis on short term needs of investors, do not, for many reasons, meet all the objectives of the participants to the financial systems.

Accountability

The organisation of the IASCF and the IASB as an independent body requires strong procedures and willingness to ensure appropriate accountability of the institution and acceptance of the standard setting process. We believe that the recent efforts displayed by the Trustees and the IASB in that respect should be pursued markedly.

In particular, we urge the Trustees to enhance their oversight function over the IASB. The Trustees should not only be responsible for ensuring the adequacy of the due process and operating procedures but should also ascertain the appropriateness of the objectives and work program of the IASB by being able for example to add some topics to the IASB’s agenda.

Moreover, it is not satisfactory that the Trustees are sole responsible for the selection of other Trustees when vacancies arise. There should be a transparent process for selecting Trustees and notably an outside nominating body. As for any oversight body, new members should not be selected by current members. As the IFRS are gaining wider audience, and thus a growing influence on the economic environment and financial systems of the constituency, it would be highly desirable that the Trustees be selected by an international outside body like for example the “Monitoring Group - MG” which selects the members of the Public Oversight Board (POB) of IFAC. The MG of IFAC includes, for example, representatives of the Basel Committee, the IAIS, IOSCO, the World Bank, and the European Commission. Such a body should not necessarily be cumbersome in the case of the IASCF as the MG would not need to be established as a legal entity and could meet as appropriate. It would contribute to a wider acceptance of the IFRS and would emphasise the transparency of the process for selecting Trustees. In that respect, we believe also that the names of all candidates to the position of Trustee or Board member should be advertised well ahead of the decision.
In addition, although there is no special requirement related to the geographical distribution of IASB's members, it can be noted that no less than 10 members out of 14 come from countries that have similar accounting and regulatory views. It is of utmost importance to avoid that kind of geographical concentration, which might jeopardise the ability of the IASB to meet the needs of its whole constituency. A proper balance would allow for the expression of more diversified opinions about the fundamental accounting options to be chosen and the definition of what is a true and fair view in accounting terms. We believe that it would also enhance the accountability of the IASB.

More broadly speaking, the Trustees should ensure that countries or geographical zones that decided to implement IAS/IFRS are appropriately represented in both the composition of Trustees and of the IASB in order to strengthen the adherence of these countries to the international accounting standards. At present, only seven members come from countries where IAS are actually applied and hence this is considered as far too low (see our comment on question 2). We suggest in particular that the Chairman of the Board should always be elected among IFRS appliers.

Question 6: the appropriateness of the IASB's existing formal liaison relationships

The change in the Constitution only acknowledges the expanded liaison relationships but give no detail about their content. To ensure that the IASB develops balanced liaisons with standards setters and avoids particular influence, the nature of formal liaison relationships should be formalized in a due process. In particular, the Trustees should ensure that the objective of convergence with other national accounting standards suited to specific environments, although desirable, does not impair the ability of the IASB to meet the needs of its constituents in different environments. Requiring a due process for such liaison relationships, including exposure of the objectives, would ensure the possibility to have open-ended discussions on the related issues.

Question 7: consultative arrangements of the IASB

We are satisfied with the efforts of the IASB to improve its due process and transparency, in the line of its consultative paper published 24 March 2004. However, we note that the only proposed change in the Constitution requires that the Board explains the reasons why it does not follow the optional steps in the due process (exposure drafts, Steering Committees, basis for conclusions, public hearings and field tests). We understand the need for flexibility in that respect but we believe that the Trustees could pay a more careful attention to the due process, especially when major projects are involved, since the optional steps are all related to public consultation. In particular, all optional steps—among them field testing—is a very important one—should be made mandatory when major projects are involved.

Indeed, ensuring that the most important choices structuring the draft standards are carefully examined and debated and publicly disclosed at early stages of the process would facilitate a less controversial implementation of the standards and would guarantee an open-ended debate on the most significant accounting options.
Detailed Answers

Question 1: whether the objectives of the IASCF should expressly refer to the challenges facing small and medium-sized entities

International accounting standards are first and foremost elaborated in the perspective of being applied by international listed companies on a consolidated basis. These standards are not always suited to small and medium-sized entities (SMEs), as they might appear complex and burdensome, given limited resources.

As a result, we agree with the proposed wording of the Constitution, which might help to address the specific challenges faced by small and medium-sized entities. One of them is to ensure that the positive aspects that the standards should entail, notably in terms of harmonisation of accounting rules, are not offset by the costs of implementation. However, the proposed change suits us as it does not imply a separate set of accounting standards for SMEs.

In addition, more generally, the objectives of IASCF described in paragraph 2 of the Constitution emphasise the prioritary satisfaction of the needs of world’s capital markets’ participants, although other users may also require information adapted to their needs. It cannot be presumed that they will be satisfied with the information provided in priority to markets’ participants. (see the general comments section of this letter).

Question 2: number of Trustees and their geographical and professional distribution

We consider that it is fruitful to have more representatives of other countries, especially emerging countries, whose specific situations and problems are not well addressed by the IASB at the moment. In that respect, we approve to proposal to extend the number of Trustees from Asia/Oceania and to change the term “Asia/Pacific” to “Asia/Oceania”.

However, we believe that the Trustees should achieve also a more balanced distribution among themselves and among the Board between the accounting and regulatory views of the main countries’ market participants and financial authorities where financial markets are the most important and active. A proper distribution is essential to achieve a real open exchange of views on the accounting options and criteria. At the moment, the business practices and the structure of the financial system of some geographical areas, such as continental Europe, do not seem to be sufficiently understood and thus appropriately addressed by accounting provisions. It is particularly important that the opinion of the European countries’ participants, which concentrate a very large proportion of IFRS appliers at the moment, is listened to and potentially taken into account when elaborating IFRS.

It seems to us paradoxical and not really convincing that the Trustees would not give emphasis to countries or geographical zones that decided to implement the IFRS, because it might impede the objective of developing global standards in the public interest and reduce the incentive for non IFRS appliers’ countries to participate in convergence. On the contrary, we believe that ensuring that countries or geographical zones that are applying the IFRS are appropriately represented and listened to would strengthen the attractiveness of the standards for other users. Indeed, it seems highly paradoxical and to be raising a level playing field issue to have an over-representation of countries that do not seem prepared to apply IFRS. On the
same ground, we suggest that both the Chairman of the Board and the Chairman of the Trustees be part of a country implementing IFRS.

Concerning professional backgrounds, we find it appropriate to reduce the importance given to the representatives of IFAC’s members compared to the representatives of preparers or users of financial statements. It is of great importance that the Trustees ensure that there is an appropriate balance of professional backgrounds, especially when preparers and users are concerned, as it will alleviate the risk of a too dogmatic or in a sense academic view and on the contrary enhance the attention given to effectiveness, including cost efficiency problems when drafting the standards.

Finally, it seems that the current proposals for change concern essentially the distribution within the members of the Trustees. We consider that the distribution within IASB’s members should also be reviewed (see our comment in the answer to question 5).

**Question 3: the oversight role of the Trustees**

We consider that the proposed changes do not strengthen enough the Trustees’ oversight role vis-à-vis IASB. Trustees should have a firm authority to review the appropriateness of the IASB’s agenda and work program. As the accounting standards issued by the IASB are gaining wider audience in the world, it is of great importance to make sure that the activities of the IASB are properly responsive to the public interest. These comments do not imply that the Trustees should enter into the technical details of the standard setting process.

Concerning educational activities, we object to the fact that the IASC Foundation could foster and review the development of programmes by others. We suggest that available resources be concentrated on enhancing the oversight responsibilities over the IASB. Moreover, we are concerned that such educational programs might become an additional layer of unofficial interpretation, not focused enough on practical implementation problems.

**Question 4: funding of the IASC Foundation**

We agree with the proposed wording and believe that the IASC Foundation should maintain its disclosure practices in that respect.

**Question 5: the composition of the IASB**

We do not object to part-time members, as they might help to maintain direct contacts with the academic and business communities. However, in terms of consistency, independence and commitment, we find it appropriate to limit their number to two.

We agree with the proposal to replace “technical expertise” by “professional competence and practical experience”, as it should in theory reflect a broader range of skills. We urge the IASC Foundation to ensure that the IASB membership is not limited to accounting and audit technicians and reflects a stronger focus on preparers and users of financial statements, aware of practical implementation problems in different financial environments. Moreover, the Board should comprise members that have skills in specific fields, for example banking accounting or communication with stakeholders in an international environment.
Question 8: voting procedures of the IASB

We consider that there is a need for a 10 vote majority, at least for issuing final standards and interpretations and we urge the Trustees to change the Constitution accordingly.

Question 9: resources and effectiveness of the International Financial Reporting Interpretations Committee (IFRIC)

Given its current structure and resources, the IFRIC might not be able to address in a timely manner all the interpretation questions that will arise with the wide implementation of the IFRS, especially in Europe. We believe that there is an urgent need to develop practical and close to the ground interpretation arrangements, which could be fulfilled for example in the context of the liaison relationships developed by the IASB with national standard setters in countries applying the IFRS.

Question 10: the composition, role, and effectiveness of the Standards Advisory Council (SAC)

We noted that the Trustees are considering reducing the number of SAC members in selecting the new SAC following completion of the Constitution Review. Moreover, the Chairman of the SAC would be elected outside of the Board. We agree with these proposals and encourage the Trustees to ensure that the SAC becomes a pro-active forum and an independent and counterbalancing partner of the IASB, able to provide useful input and guidance, as part of the enhancement of the accountability of the Board.