

ACTIVIDADES DE LA PRESIDENCIA PRO TEMPORE URUGUAYA- 2005

- ✓ II Encuentro fronterizo de Cooperativas del MERCOSUR
Encarnación – Paraguay, 23 y 24 de Junio
- ✓ X Sesión Plenaria RECM, 22 y 23 de Agosto
- ✓ III Encuentro fronterizo de Cooperativas del MERCOSUR
Porto Alegre - Brasil, 27 y 28 de Octubre
- ✓ Seminario Economía Social en Europa y MERCOSUR – Edificio MERCOSUR
(CPC/PE/RECM), 25 de Noviembre

Presentación Pública libro "La importancia de las Cooperativas como instrumentos de cohesión social, en Europa y América Latina"
RECM/CCACE/CPC/PE

- ✓ XI Sesión Plenaria RECM, 26 y 27 de Noviembre
Taller Políticas Públicas en materia de cooperativas en el MERCOSUR
Presentación DOCUMENTO: "Cooperativas: Políticas Públicas en el MERCOSUR, sistematización y recomendaciones".
Presentación DOCUMENTO: "Las Cooperativas en Zonas de Frontera, situación y potencialidades del desarrollo integrado".

Actividades especiales SECRETARIA TECNICA

- ✓ Edición Boletín virtual: julio, octubre, diciembre
- ✓ Diseño definitivo sitio web interactivo MERCOSUR.coop
- ✓ Actualización permanente página web www.mercosur.org.uy/recm.html
- ✓ Elaboración junto a la representación de la RECM en Bruselas del pre-proyecto OBSERVATORIO
- ✓ Participación en 3 encuentros de carácter nacional: Argentina, Brasil, Paraguay
- ✓ Coordinación con el SGT7, particularmente Foro de Madera y Muebles
Solicitud de respaldo a Cancillería Uruguaya
- ✓ Coordinación con el Comité ad-hoc Asuntos Fronterizos

Solicitud de respaldo institucional de la PPT uruguaya del GMC

- ✓ Agendar reunión con el GMC durante el período
- ✓ Respaldo solicitud de entrevista en la Cumbre Presidencial de Diciembre
- ✓ Respaldo de Cancillería para localizar la Secretaría Técnica de la RECM en el Edificio MERCOSUR (trámite formal ya presentado en 2004)
- ✓ Utilización de servicio diplomático de envíos y recepción de documentos y publicaciones
- ✓ Pasaporte rojo para Secretario Técnico y Presidente Pro-Témpore

Mr. Paul A. Volcker
Chairman, IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Brussels 10 March 2005

Dear Mr Volcker,

IASC Foundation Constitutional Review: Proposals for change

EFRAG is pleased to submit its comments on the International Accounting Standards

Committee Foundation's (the IASCF's) invitation for comment on your Consultation paper "Proposals for change".

EFRAG continues to support the development of one set of globally accepted accounting standards that will enhance the efficiency of the capital markets around the world and increase the quality of information reported by entities in many jurisdictions. These standards should be principle-based in order for information to be presented in the manner most useful for users around the world and developed by an independent, private sector standard setter. We fully support the International Accounting Standards Board (IASB) in this role.

Over its short life EFRAG has benefited from the goodwill shown to us by the IASB, which has never failed to provide the best people it has available to come to the meetings of our Technical Expert Group and to discuss issues with us, as well as, more recently, providing our staff with access to all the technical agenda papers of the Board and IFRIC. We trust, therefore, that our comments will be read as those of a constructive partner, genuinely seeking to enhance IASB's standing as the global standard setter through the development of constitutional arrangements acceptable globally, including to Europe.

The International Financial Reporting Standards and the IASB are very important to Europe because the Council of Ministers and the EU Parliament have made the IFRS mandatory for consolidated financial statements for listed companies as from 2005. To make the standards mandatory they have been made part of European legislation via the IAS Regulation and endorsement of the standards. Therefore the constitutional arrangements are of crucial interest for Europe.

We have to express disappointment with the proposals for change put forward in the Consultation paper. It appears that the Trustees have ignored many European concerns

even though numerous proposals for change were put forward by many different European organisations.

Many organisations proposed finding means to have European constituents more involved in one way or another, but the proposals seem to us to be more in the direction of diluting the European involvement. It is all the more disappointing, therefore, that the proposals contained within the Constitutional Review document are so marginal in their response to the ideas put forward during the preceding consultative round, including the open meetings held during the course of 2004.

The key issues we see as needing improvement are

- Accountability and public oversight of the Trustees and the Board
- The governance structure
- The composition of the Trustees and the Board

One of the most concerning points in the structure is the lack of accountability and public oversight. It is troublesome to us that the **Trustees are only responsible to the “public interest” and that the trustees are self-perpetuating**. It is of the utmost importance that the Trustees are in some way accountable to others and that a proper election system is established. It is simply not possible to explain to European politicians that the Trustees are not accountable to anyone and that **they can reappoint themselves** without a real challenge; yet, of course, European politicians have a legitimate interest in the governance arrangements of the IASCF and the consultative processes and governance of the IASB.

We would like to stress that the question of accountability of the IASB itself is also very important to the European constituency and we elaborate below on that issue and the request for more European involvement.

The constitutional review takes place at a time when the accountability of the IASCF Foundation and the IASB is under scrutiny within the European Council and Parliament. We believe that it would be in the interests of the IASCF to recognise this and for it to come forward with proposals on strengthening the accountability of the Trustees to their constituents, as well as the accountability of the Board to both the Trustees and the jurisdictions that have placed faith in the IASCF to produce accounting standards on their behalf.

We do urge the Trustees to undertake a more fundamental appraisal of these challenges in order to improve the credibility of the IASCF and IASB in relation to key stakeholders.

It is clear from our point of view that the debate has moved very quickly in Europe recently and therefore we recommend postponing the final decision of the constitutional review and putting forward new proposals to ensure European acceptance.

We believe that the oversight role of the Trustees needs to be strengthened as part of an improved governance structure for the IASCF/IASB. The proposals for changes to paragraph 16 of the constitution go some way to meet this need, in particular the references to consideration of the agenda and the more specific language regarding the oversight of consultative arrangements and due process. While agreeing that decisions on technical matters should be left to the Board we should like to see a closer involvement of the Trustees in the general direction of standard setting, including the prioritisation of the agenda and ensuring a proper due process including a proper due process on the agenda and on agreements such as the Norwalk agreement. We also believe that oversight should include a review from time to time of the backgrounds and origin of the staff.

We believe that, in the appointments both of Trustees and members of the Board, more weight should be given to countries and regions committed to applying IFRS/IAS and especially to Europe. In particular, we believe that the Norwalk Agreement and the close cooperation on joint projects with the US require a special focus on the composition of the Board not to give a perception to the public that the US has dominance over the development of future standards. (see also our response to issue 5)

We thank the Trustees for the intention mentioned in the proposal to recognise EFRAG as a liaison organisation.

We believe that it would assist the smooth working of our relationship if EFRAG could also be given:

-Observer membership of the IFRIC

-Formal status as a member of SAC (At present, the Chairman of EFRAG's

Technical Expert Group attends in his capacity as coming from one of the big accounting firms.)

-A more close involvement in the work of the IASB

Despite the comments and proposals voiced in this letter, we should like to stress that in our opinion the IASB has performed well since the transition from the IASC and we believe that the Board generally is issuing high quality standards. We again underline that we support the IASB as the global standard setting body. We would also repeat that we see the EFRAG-IASB relationship as an important partnership and we want to participate in different ways, one being putting forward constructive proposals to the IASB and IASCF on behalf of Europe.

Appendix 1 to this letter addresses the specific issues raised by the IASCF in its November 2004 Consultation paper.

If you have any questions concerning our comments, please contact Gøran Tidstrøm on +46 8 555 33 099 or Stig Enevoldsen on +32-2 510 08 88.

Yours sincerely,

Göran Tidstrøm Stig Enevoldsen
Chairman Chairman
Supervisory Board Technical Expert Group

Appendix 1

IASCF CONSTITUTIONAL REVIEW PROPOSALS FOR CHANGE EFRAG VIEWS ON SPECIFIC ISSUES

Issue 1: Whether the objectives of the IASC Foundation should expressly refer to the challenges facing small and medium-sized entities?

As mentioned in our response letter dated 21st June 2004 we have some sympathy for having SME accounting as a specific objective, but it may be equally acceptable that the constitution refers to developing high quality accounting standards that will provide different user groups with high quality, understandable and transparent financial information.

We find the wording proposed for Section 2(b) to be somewhat misleading. The following wording is proposed by the Trustees:

“The objectives of the IASC Foundation are:

(b) to promote the use and rigorous application of those standards, taking account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and”

In our view it is not the development of those standards that should take account of the points mentioned, but, rather, development of the standards issued for SME's. **In addition we believe that the IASB should not be bound by the constitution to issue “one single set of high quality, ...accounting standards...”** because it may decide to issue another set of standards specifically for SME's.

Issue 2: Number of Trustees and their geographical and professional distribution

We have to express disappointment with the proposals for change put forward in the Consultation paper. It seems as though the Trustees have not attached sufficient weight to the European concerns even though many proposals for change were put forward by many different European organisations. Such an outcome is not satisfactory to the European constituency.

Many organisations proposed finding means to have European constituents more involved in one way or another, but the proposals are, if anything, more in the direction

of diluting the European involvement including the question on the number and composition of Trustees.

The committee has proposed to expand the number of Trustees to 22 members and to change paragraph 7 and delete paragraph 8. We can partly support the change because we support the intention to have more influence from Asia/Oceania, but we have concerns about the geographical composition of the Trustees and **we suggest changing the wording**

so that it states “..six from the Americas..” rather than from North America. We also believe that Europe is still underrepresented given the size of the capital markets in Europe required to apply IFRS.

Issue 3: The oversight role of the Trustees

We would raise the following key issues in relation to oversight and public accountability

Accountability and public oversight of the Trustees and the Board

The governance structure

The composition of the Trustees

We believe that the oversight role of the Trustees needs to be strengthened as part of an improved governance structure for the IASCF/IASB. The proposals for changes to paragraph 16 of the constitution go some way to meet this need, in particular the references to consideration of the agenda and the more specific language regarding the oversight of consultative arrangements and due process. While agreeing that decisions on technical matters should be left to the Board, we should like to see a closer involvement of the Trustees in the the general direction of standard setting, including the prioritisation of the agenda and ensuring a proper due process including a proper due process on the agenda and agreements such as the Norwalk Agreement. We also believe that oversight should include a review from time to time of the backgrounds and origin of the staff.

We believe that the Trustees should make a formal evaluation of the Board's performance every year and publish it in the Annual Report. We also believe that the Trustees should justify annually how they have ensured that there is a proper balance on the Board including how they have ensured that no region or country dominates standard setting in the world. It is also important that there is an open due process on (re)appointments of Board members. There was no transparent process in the summer of 2004 when several Board members (all North Americans) were reappointed without invitation to other candidates to put their names forward. Such a procedure should not favour existing members and would not be credible for a global organisation; moreover, it cannot be satisfactory to the Board members themselves, who have worked very hard to create transparency for the standard setting process. Such a procedure is not recommended to be repeated.

We believe it is important for the Trustees to ensure that there is an appropriate due process on the agenda prioritisation and, that it is not only the FASB that has influence on this matter. There ought to be a proper balance on the agenda prioritisation, with checks and balances between the constituents, the Board, the Trustees and SAC, so that it is not a matter for the Board to decide in isolation.

We also believe it is a matter of good governance to draw to the attention of the Trustees that standards should always be in full conformity with the Framework or the Framework should be changed. IFRS are now part of the legal system in Europe and therefore they should be predictable and compliant with the Framework Europe accepted when paving the way for the IASB to be the body issuing standards for use in Europe.

We repeat that we do not agree that one of the IASCF objectives should be to foster and review educational programmes. It should be left to professional organisations in that particular field.

Issue 4: Funding of the IASC Foundation

We believe that the funding issue is very important and should be resolved as soon as possible, preferably before finalisation of the constitutional review.

We are not sure that we support the change of the wording of section 14(a), because we believe the Trustees continue to have responsibility for funding, no matter what particular arrangements they are able to put in place. We certainly understand and agree that the IASCF has an issue to be resolved and we have some sympathy for a levy on listed companies to fund part of the accounting standard setting and endorsement mechanisms. However, a levy is only one source of funding, and other sources should also be considered as the standards are also used by non-listed companies.

Issue 5: The composition of the IASB

We do not support the proposed change of paragraph 19, because we continue to support the possibility to have more part timers on the Board, which has been the preferred solution in large parts of Europe for a long time. In our opinion it is possible to organise the work for the IASB to allow room for 4-6 part time members. We also believe that having four to six rather than two part time members would enhance their role and importance, because the workload and the distribution of duties would have to be adjusted. We would not be against a board of 16 with 6 part time members.

An increase in the number of part-timers might also lower the pace of activity – a result that may for many reasons be viewed as positive to avoid the very high level of change which appears to be cumbersome for users, preparers, auditors and regulators who have to implement and live with all the changes.

We also believe that part time members will increase the Board's understanding of the practical implications of new standards because the part time members should bring practical experience of working with them in real life outside the IASB.

It follows from the above that we do not support that the part time Board members should be required to use "most of their time" on the IASB work, whereas we could support approximately 50 per cent as a sensible share to maintain practical experience as a real and not only a formal notion.

We support the relaxation of the too specific requirements in paragraph 22 for specific backgrounds.

However, we strongly believe that the Board members should have a bias towards experience from countries and regions committed to use and/or implement IFRSs and we believe it is very important that the Trustees ensure that no one country or region dominates the IASB or global standard setting where the IASB is included for instance in joint projects between the FASB and the IASB. In that respect we are concerned about the way the two boards are working with their joint projects, including the convergence project. It seems to be the understanding that the two boards are working more and more as one board when standards are being developed and that is concerning because the composition of the combined boards gives a dominant influence to one country in that there is a majority with a US background at the table. If the two boards are working together to converge accounting standards then the two sides converging should be independent of each other.

In addition we find it very important that the Board members should have a greater diversity of experience and background. As countries start to apply IFRS widely, their economic, social and financial experience should be given more substantial weight in the composition of the Board of IASB. This point is important for the ultimate widespread acceptance of IFRS as standards of the highest quality and the future success and acceptance of the convergence project.

Therefore, in future the Trustees should ensure a wider composition with members having more diverse backgrounds, and we reiterate our proposal of having more Board members with background from Europe

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

We support the proposed changes. We do appreciate the reference to EFRAG in the consultation paper and we trust that the IASB will continue the relationship with EFRAG, a relationship we appreciate very much. We are, however, concerned that the Board is downgrading the work with liaison standard setters and organisations other than the FASB, which is not to the benefit of diverse input into the IASB process and is discouraging for the cooperation of the involved parties. We also find it important that the content of the liaison relationship is well defined and described and under oversight of the Trustees.

Issue 7: Consultative arrangements of the IASB

We acknowledge the IASB's recent improvements to the deliberative processes and welcome its initiative, which is a major step in the right direction and far more transparent than most other standard setting organizations.

We would also like to commend the IASB for having in recent months introduced new arrangements aimed at improving practitioner involvement in its work. The establishment of working groups on key projects such as financial instruments, insurance and reporting financial performance marks an intention on the part of the IASB to proceed via a more inclusive approach and constitutes a highly significant development. We also support the intention that these groups should work in an open environment. This should result in an open and engaged dialogue on important issues that can only enhance the quality and authority of the resulting proposals.

We strongly encourage the IASB to extend the comment periods on discussion papers, exposure drafts and draft interpretations to allow time for translation and consideration by those for whom English is not their first language and also to allow time to countries and regions where regulation of accounting rules has not until now been done in the form of independent standard setting.

We recommend that there be a transparent due process on the agenda prioritisation including public exposure and justification for the selected agenda items.

Issue 8: Voting procedures of the IASB

EFRAG believes it is a good proposal to require a supermajority of nine votes to approve a standard. It will show the outside world that the IASB is issuing robust standards, demonstrably broadly supported by Board members and not just a slim majority.

Issue 9: Resources and effectiveness of the International Financial Reporting Interpretations Committee (IFRIC)

We understand that the IFRIC is itself conducting an internal review of its procedures. We welcome such a review and believe it is needed. We are critical of the performance of the IFRIC.

We consider that IFRIC has found itself in a difficult place: between wanting to support principle-based standards, while at the same time wanting to give guidance in areas that genuinely merit guidance. We believe that an open dialogue on European implementation and the sense that there has been a shortage of needed guidance may result in a better understanding of the place of implementation guidance within accounting standards grounded in principle. This may be an area in which the IASB should seek to enlist further support from some of its regional constituents, including Europe. This is something that EFRAG would specifically like to explore with you.

We welcome an open and transparent process in the review of IFRIC's activities, supported by a questionnaire for public comment.

Finally we repeat that we believe EFRAG should be represented as an observer in IFRIC.

Issue 10: The composition, role, and effectiveness of the SAC

We support the Trustees' proposals, including the appointment of a chairman independent of the Board and the staff. We also support specific mention of the liaison between the Trustees and the SAC.

We would like the role of SAC to be enhanced to ensure its importance for both IASB and the SAC. The SAC should consist of high-level members only so that the SAC becomes a litmus test for the IASB agenda and the review of key projects. In that respect we would like to propose increasing the involvement of SAC, for instance by giving the SAC a more formal influence on the agenda prioritisation, so that where a change is made the Board explain in writing why the agenda was prioritised differently from that recommended by the SAC. Having said that, we recognise that the SAC is an advisory committee only and should remain so.

The SAC agenda should be important both to the members of SAC and to the Board members and the SAC should comprise really high-level people to get valuable input for the Board and to make participation worthwhile for the members of SAC. Consideration might also be given to having SAC composed of persons with whom the IASB is not otherwise in direct contact.

EFRAG requests formal representation on SAC in the future.

Mr. Paul A. Volcker
Chairman, IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

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Yours sincerely,

Gøran Tidstrøm
Chairman
Supervisory Board

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Chairman
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**IASCF CONSTITUTIONAL REVIEW
PROPOSALS FOR CHANGE
EFRAG VIEWS ON SPECIFIC ISSUES**

Issue 1: Whether the objectives of the IASC Foundation should expressly refer to the challenges facing small and medium-sized entities?

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An increase in the number of part-timers might also lower the pace of activity – a result that may for many reasons be viewed as positive to avoid the very high level of change which appears to be cumbersome for users, preparers, auditors and regulators who have to implement and live with all the changes.

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It follows from the above that we do not support that the part time Board members should be required to use "most of their time" on the IASB work, whereas we could support approximately 50 per cent as a sensible share to maintain practical experience as a real and not only a formal notion.

We support the relaxation of the too specific requirements in paragraph 22 for specific backgrounds.

However, we strongly believe that the Board members should have a bias towards experience from countries and regions committed to use and/or implement IFRSs and we believe it is very important that the Trustees ensure that no one country or region dominates the IASB or global standard setting where the IASB is included for instance in joint projects between the FASB and the IASB. In that respect we are concerned about the way the two boards are working with their joint projects, including the convergence project. It seems to be the understanding that the two boards are working more and more as one board when standards are being developed and that is concerning because the composition of the *combined* boards gives a dominant influence to one country in that there is a majority with a US background at the table. If the two boards are working together to converge accounting standards then the two sides converging should be independent of each other.

In addition we find it very important that the Board members should have a greater diversity of experience and background. As countries start to apply IFRS widely, their economic, social and financial experience should be given more substantial weight in the composition of the Board of IASB. This point is important for the ultimate widespread acceptance of IFRS as standards of the highest quality and the future success and acceptance of the convergence project.

Therefore, in future the Trustees should ensure a wider composition with members having more diverse backgrounds, and we reiterate our proposal of having more Board members with background from Europe

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

We support the proposed changes. We do appreciate the reference to EFRAG in the consultation paper and we trust that the IASB will continue the relationship with EFRAG, a relationship we appreciate very much. We are, however, concerned that the Board is downgrading the work with liaison standard setters and organisations other than the FASB, which is not to the benefit of diverse input into the IASB process and is discouraging for the cooperation of the involved parties. We also find it important that the content of the liaison relationship is well defined and described and under oversight of the Trustees.

Issue 7: Consultative arrangements of the IASB

We acknowledge the IASB's recent improvements to the deliberative processes and welcome its initiative, which is a major step in the right direction and far more transparent than most other standard setting organizations.

We would also like to commend the IASB for having in recent months introduced new arrangements aimed at improving practitioner involvement in its work. The establishment of working groups on key projects such as financial instruments, insurance and reporting financial performance marks an intention on the part of the IASB to proceed via a more inclusive approach and constitutes a highly significant development. We also support the intention that these groups should work in an open environment. This should result in an open and engaged dialogue on important issues that can only enhance the quality and authority of the resulting proposals.

We strongly encourage the IASB to extend the comment periods on discussion papers, exposure drafts and draft interpretations to allow time for translation and consideration by those for whom English is not their first language and also to allow time to countries and regions where regulation of accounting rules has not until now been done in the form of independent standard setting.

We recommend that there be a transparent due process on the agenda prioritisation including public exposure and justification for the selected agenda items.

Issue 8: Voting procedures of the IASB

EFRAG believes it is a good proposal to require a supermajority of nine votes to approve a standard. It will show the outside world that the IASB is issuing robust standards, demonstrably broadly supported by Board members and not just a slim majority.

Issue 9: Resources and effectiveness of the International Financial Reporting Interpretations Committee (IFRIC)

We understand that the IFRIC is itself conducting an internal review of its procedures. We welcome such a review and believe it is needed. We are critical of the performance of the IFRIC.

We consider that IFRIC has found itself in a difficult place: between wanting to support principle-based standards, while at the same time wanting to give guidance in areas that genuinely merit guidance. We believe that an open dialogue on European implementation and the sense that there has been a shortage of needed guidance may result in a better understanding of the place of implementation guidance within accounting standards grounded in principle. This may be an area in which the IASB should seek to enlist further support from some of its regional constituents, including Europe. This is something that EFRAG would specifically like to explore with you.

We welcome an open and transparent process in the review of IFRIC's activities, supported by a questionnaire for public comment.

Finally we repeat that we believe EFRAG should be represented as an observer in IFRIC.

Issue 10: The composition, role, and effectiveness of the SAC

We support the Trustees' proposals, including the appointment of a chairman independent of the Board and the staff. We also support specific mention of the liaison between the Trustees and the SAC.

We would like the role of SAC to be enhanced to ensure its importance for both IASB and the SAC. The SAC should consist of high-level members only so that the SAC becomes a litmus test for the IASB agenda and the review of key projects. In that respect we would like to propose increasing the involvement of SAC, for instance by giving the SAC a more formal influence on the agenda prioritisation, so that where a change is made the Board explain in writing why the agenda was prioritised differently from that recommended by the SAC. Having said that, we recognise that the SAC is an *advisory* committee only and should remain so.

The SAC agenda should be important both to the members of SAC and to the Board members and the SAC should comprise really high-level people to get valuable input for the Board and to make participation worthwhile for the members of SAC. Consideration might also be given to having SAC composed of persons with whom the IASB is not otherwise in direct contact :

EFRAG requests formal representation on SAC in the future.

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Mr. Paul A. Volcker
Chairman, IASC Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom
Brussels 10 March 2005

Dear Mr Volcker,

IASC Foundation Constitutional Review: Proposals for change

EFRAG is pleased to submit its comments on the International Accounting Standards Committee Foundation's (the IASCF's) invitation for comment on your Consultation paper "Proposals for change".

EFRAG continues to support the development of one set of globally accepted accounting

standards that will enhance the efficiency of the capital markets around the world and

increase the quality of information reported by entities in many jurisdictions.

These

standards should be principle-based in order for information to be presented in the

manner most useful for users around the world and developed by an independent, private

sector standard setter. We fully support the International Accounting Standards Board

(IASB) in this role.

Over its short life EFRAG has benefited from the goodwill shown to us by the IASB, which has never failed to provide the best people it has available to come to the meetings

of our Technical Expert Group and to discuss issues with us, as well as, more recently,

providing our staff with access to all the technical agenda papers of the Board and IFRIC.

We trust, therefore, that our comments will be read as those of a constructive partner,

genuinely seeking to enhance IASB's standing as the global standard setter through the

development of constitutional arrangements acceptable globally, including to Europe.

The International Financial Reporting Standards and the IASB are very important to Europe because the Council of Ministers and the EU Parliament have made the IFRS mandatory for consolidated financial statements for listed companies as from 2005.

To make the standards mandatory they have been made part of European legislation via the

IAS Regulation and endorsement of the standards. Therefore the constitutional arrangements are of crucial interest for Europe.

We have to express disappointment with the proposals for change put forward in the Consultation paper. It appears that the Trustees have ignored many European concerns

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even though numerous proposals for change were put forward by many different European organisations.

Many organisations proposed finding means to have European constituents more involved in one way or another, but the proposals seem to us to be more in the direction

of diluting the European involvement

It is all the more disappointing, therefore, that the proposals contained within the

Constitutional Review document are so marginal in their response to the ideas put forward during the preceding consultative round, including the open meetings held during

the course of 2004

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The key issues we see as needing improvement are
Accountability and public oversight of the Trustees and the Board
The governance structure
The composition of the Trustees and the Board
One of the most concerning points in the structure is the lack of accountability
and public oversight. It is troublesome to us that the Trustees are only responsible to the
"public interest" and that the trustees are self-perpetuating. It is of the utmost
importance that the Trustees are in some way accountable to others and that a proper election system is
established. It is simply not possible to explain to European politicians that the
Trustees are not accountable to anyone and that they can reappoint themselves without a real
challenge; yet, of course, European politicians have a legitimate interest in the
governance arrangements of the IASCF and the consultative processes and governance
of the IASB.
We would like to stress that the question of accountability of the IASB itself is
also very important to the European constituency and we elaborate below on that issue and the
request for more European involvement.
The constitutional review takes place at a time when the accountability of the
IASCF Foundation and the IASB is under scrutiny within the European Council and
Parliament.
We believe that it would be in the interests of the IASCF to recognise this and for
it to come forward with proposals on strengthening the accountability of the Trustees to
their constituents, as well as the accountability of the Board to both the Trustees and
the jurisdictions that have placed faith in the IASCF to produce accounting standards
on their behalf.
We do urge the Trustees to undertake a more fundamental appraisal of these
challenges in order to improve the credibility of the IASCF and IASB in relation to key
stakeholders.

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It is clear from our point of view that the debate has moved very quickly in Europe
recently and therefore we recommend postponing the final decision of the
constitutional review and putting forward new proposals to ensure European
acceptance.
We believe that the oversight role of the Trustees needs to be strengthened as part
of an improved governance structure for the IASCF/IASB. The proposals for changes to
paragraph 16 of the constitution go some way to meet this need, in particular the
references to consideration of the agenda and the more specific language regarding
the oversight of consultative arrangements and due process. While agreeing that
decisions on technical matters should be left to the Board we should like to see a closer
involvement of the Trustees in the general direction of standard setting, including the
prioritisation of the agenda and ensuring a proper due process including a proper due process on the
agenda

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and on agreements such as the Norwalk agreement. We also believe that oversight should include a review from time to time of the backgrounds and origin of the staff. We believe that, in the appointments both of Trustees and members of the Board, more weight should be given to countries and regions committed to applying IFRS/IAS and especially to Europe. In particular, we believe that the Norwalk Agreement and the close cooperation on joint projects with the US require a special focus on the composition of the Board not to give a perception to the public that the US has dominance over the

development of future standards. (see also our response to issue 5)

We thank the Trustees for the intention mentioned in the proposal to recognise EFRAG

as a liaison organisation.

We believe that it would assist the smooth working of our relationship if EFRAG could also be given:

- Observer membership of the IFRIC
- Formal status as a member of SAC (At present, the Chairman of EFRAG's Technical Expert Group attends in his capacity as coming from one of the big accounting firms.)
- A more close involvement in the work of the IASB

Despite the comments and proposals voiced in this letter, we should like to stress that in

our opinion the IASB has performed well since the transition from the IASC and we believe that the Board generally is issuing high quality standards. We again underline that

we support the IASB as the global standard setting body. We would also repeat that we

see the EFRAG-IASB relationship as an important partnership and we want to participate

in different ways, one being putting forward constructive proposals to the IASB and

IASCF on behalf of Europe.

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Appendix 1 to this letter addresses the specific issues raised by the IASCF in its November 2004 Consultation paper.

If you have any questions concerning our comments, please contact Gøran Tidstrøm on

+46 8 555 33 099 or Stig Enevoldsen on +32-2 510 08 88.

Yours sincerely,

Göran Tidström Stig Enevoldsen

Chairman Chairman

Supervisory Board Technical Expert Group

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Appendix 1

IASCF CONSTITUTIONAL REVIEW

PROPOSALS FOR CHANGE

EFRAG VIEWS ON SPECIFIC ISSUES

Issue 1: whether the objectives of the IASC Foundation should expressly refer to the challenges facing small and medium-sized entities?

As mentioned in our response letter dated 21st June 2004 we have some sympathy for having SME accounting as a specific objective, but it may be equally acceptable that the

constitution refers to developing high quality accounting standards that will provide

different user groups with high quality, understandable and transparent financial information.

We find the wording proposed for section 2(b) to be somewhat misleading. The

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following wording is proposed by the Trustees:

"The objectives of the IASC Foundation are:

(b) to promote the use and rigorous application of those standards, taking account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and"

In our view it is not the development of those standards that should take account of the

points mentioned, but, rather, development of the standards issued for SME's. In addition

we believe that the IASB should not be bound by the constitution to issue "one single set

of high quality, ...accounting standards..." because it may decide to issue another set of

standards specifically for SME's.

Issue 2: Number of Trustees and their geographical and professional distribution

We have to express disappointment with the proposals for change put forward in the Consultation paper. It seems as though the Trustees have not attached sufficient weight to

the European concerns even though many proposals for change were put forward by many different European organisations. Such an outcome is not satisfactory to the European constituency.

Many organisations proposed finding means to have European constituents more involved in one way or another, but the proposals are, if anything, more in the direction

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of diluting the European involvement including the question on the number and composition of Trustees.

The committee has proposed to expand the number of Trustees to 22 members and to change paragraph 7 and delete paragraph 8. We can partly support the change because we

support the intention to have more influence from Asia/Oceania, but we have concerns about the geographical composition of the Trustees and we suggest changing the

wording so that it states "...six from the Americas.." rather than from North America. We

also believe that Europe is still underrepresented given the size of the capital markets

in Europe required to apply IFRS.

Issue 3: The oversight role of the Trustees

We would raise the following key issues in relation to oversight and public accountability

Accountability and public oversight of the Trustees and the Board

The governance structure

The composition of the Trustees

We believe that the oversight role of the Trustees needs to be strengthened as part of an

improved governance structure for the IASCF/IASB. The proposals for changes to paragraph 16 of the constitution go some way to meet this need, in particular the references to consideration of the agenda and the more specific language regarding the

oversight of consultative arrangements and due process. While agreeing that decisions on

technical matters should be left to the Board, we should like to see a closer involvement

of the Trustees in the the general direction of standard setting, including the prioritisation

of the agenda and ensuring a proper due process including a proper due process on the

agenda and agreements such as the Norwalk Agreement. We also believe that oversight

should include a review from time to time of the backgrounds and origin of the

staff.

We believe that the Trustees should make a formal evaluation of the Board's performance every year and publish it in the Annual Report. We also believe that the Trustees should justify annually how they have ensured that there is a proper balance on the Board including how they have ensured that no region or country dominates standard setting in the world. It is also important that there is an open due process on (re)appointments of Board members. There was no transparent process in the summer of 2004 when several Board members (all North Americans) were reappointed without invitation to other candidates to put their names forward. Such a procedure should not favour existing members and would not be credible for a global organisation; moreover, it cannot be satisfactory to the Board members themselves, who have worked very hard to create transparency for the standard setting process. Such a procedure is not recommended to be repeated.

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We believe it is important for the Trustees to ensure that there is an appropriate due process on the agenda prioritisation and, that it is not only the FASB that has influence on this matter. There ought to be a proper balance on the agenda prioritisation, with checks and balances between the constituents, the Board, the Trustees and SAC, so that is it not a matter for the Board to decide in isolation. We also believe it is a matter of good governance to draw to the attention of the Trustees that standards should always be in full conformity with the Framework or the Framework should be changed. IFRS are now part of the legal system in Europe and therefore they should be predictable and compliant with the Framework Europe accepted when paving the way for the IASB to be the body issuing standards for use in Europe. We repeat that we do not agree that one of the IASCF objectives should be to foster and review educational programmes. It should be left to professional organisations in that particular field.

Issue 4: Funding of the IASC Foundation

We believe that the funding issue is very important and should be resolved as soon as possible, preferably before finalisation of the constitutional review. We are not sure that we support the change of the wording of section 14(a), because we believe the Trustees continue to have responsibility for funding, no matter what particular arrangements they are able to put in place. We certainly understand and agree that the IASCF has an issue to be resolved and we have some sympathy for a levy on listed companies to fund part of the accounting standard setting and endorsement mechanisms.

However, a levy is only one source of funding, and other sources should also be considered as the standards are also used by non-listed companies.

Issue 5: The composition of the IASB

We do not support the proposed change of paragraph 19, because we continue to support the possibility to have more part timers on the Board, which has been the preferred

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solution in large parts of Europe for a long time. In our opinion it is possible to organise the work for the IASB to allow room for 4-6 part time members. We also believe that having four to six rather than two part time members would enhance their role and importance, because the workload and the distribution of duties would have to be adjusted. We would not be against a board of 16 with 6 part time members.

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An increase in the number of part-timers might also lower the pace of activity - a result that may for many reasons be viewed as positive to avoid the very high level of change which appears to be cumbersome for users, preparers, auditors and regulators who have to implement and live with all the changes. We also believe that part time members will increase the Board's understanding of the practical implications of new standards because the part time members should bring practical experience of working with them in real life outside the IASB. It follows from the above that we do not support that the part time Board members should be required to use "most of their time" on the IASB work, whereas we could support approximately 50 per cent as a sensible share to maintain practical experience as a real and not only a formal notion.

We support the relaxation of the too specific requirements in paragraph 22 for specific backgrounds.

However, we strongly believe that the Board members should have a bias towards experience from countries and regions committed to use and/or implement IFRSs and we believe it is very important that the Trustees ensure that no one country or region

dominates the IASB or global standard setting where the IASB is included for instance in joint projects between the FASB and the IASB. In that respect we are concerned about the way the two boards are working with their joint projects, including the convergence project. It seems to be the understanding that the two boards are working more and more as one board when standards are being developed and that is concerning because the composition of the combined boards gives a dominant influence to one country in that there is a majority with a US background at the table. If the two boards are working together to converge accounting standards then the two sides converging should be independent of each other.

In addition we find it very important that the Board members should have a greater diversity of experience and background. As countries start to apply IFRS widely, their economic, social and financial experience should be given more substantial weight in the composition of the Board of IASB. This point is important for the ultimate widespread acceptance of IFRS as standards of the highest quality and the future success and acceptance of the convergence project.

Therefore, in future the Trustees should ensure a wider composition with members having more diverse backgrounds, and we reiterate our proposal of having more Board members with background from Europe

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Finally we repeat that we believe EFRAG should be represented as an observer in IFRIC.

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SAC a more formal influence on the agenda prioritisation, so that where a change is made

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