

Tamara Oyre  
Assistant Corporate Secretary  
IASC Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Weinheim, 19 September 2008

Dear Tamara,

## **REVIEW OF THE CONSTITUTION**

We appreciate the opportunity to comment on the proposals of the Trustees of the IASC Foundation to amend the Constitution.

The Association for the Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF) was founded in 2006 and consists of German companies with a strong family shareholder background. As of today we count approximately 70 member companies with a consolidated turnover of more than 250 billion Euro and over 1.2 million employees worldwide. Beyond its members, the association represents the vast majority of family-owned medium and small-sized companies in Germany – often legally organized in the form of partnerships – that represent the backbone of the German economy. German family businesses do hold an increasingly important stake in international accounting. The aim of the VMEBF association is to make the role of German family businesses as stakeholders in the development of international accounting more visible and to act as a constructive partner for the standard setters. We work closely with the German standard-setters DRSC and IDW and furthermore with political institutions.

Already today, application of IFRSs is widely spread among our member companies and an important number of members are currently considering a first time application of IFRSs in their financial statements. Since financial reporting standards around the world converge and the importance of IFRSs is rising steadily in this context, the special requirements of family-owned non-publicly listed entities have to be considered when developing rules for financial reporting. With concern we notice the focus of the IASB's activities on issues regarding publicly listed companies and the flawed understanding of the problems arising thereof, especially for small and medium-sized family businesses. Therefore, it is our understanding that the relevant bodies (IASB, IFRIC, SAC etc.) should be staffed with at least a minimum of

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representatives of family-owned non-publicly listed entities. Additionally, an advisory board, modelled on the Private Company Financial Reporting Committee in the US and consisting of representatives of family-owned entities worldwide, should be established to support the standard-setting bodies in identifying and considering the needs of family businesses. We also consider this approach to be consistent with the objectives as stated in par. 3 of the Constitution. Furthermore, in par. 10 and 11 of the discussion paper the relationship between the Trustees and several stakeholder groups is outlined. From our point of view, the Trustees should explicitly include associations of family-owned businesses as relevant stakeholder groups.

Moreover, as one of the objectives of the IASC Foundation is to develop a single set of high quality, understandable and enforceable global accounting standards the Trustees should watch the activities of the IASB more closely. High quality financial reporting standards require a principle-based approach to standard-setting which leads to a clear and concise underlying concept. With this in mind, the Trustees should carefully assess the IASB integrating more and more casuistic exceptions from the underlying principles in existing standards. We believe that a consistent and comprehensive framework overruling even the standards themselves could lead to the development of a concise and lean set of standards and a simplified and economically meaningful financial reporting. Nevertheless, this requires a profound and in-depth analysis and evaluation of the current standards and the IASB's actual projects as a starting point for further deliberations.

Overall, we believe that strengthening the attendance of representatives of family-owned non-publicly listed entities would help the standard-setting bodies to develop high quality standards for all companies regardless of their legal form or industry and across various jurisdictions.

Please refer to the appendix to this letter for our detailed answers to the questions expressed in the discussion document.

Kind regards,

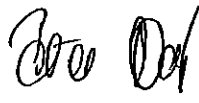
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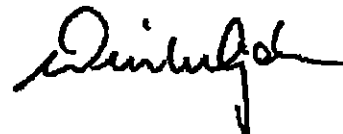
Frank Reuther



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**Appendix:**  
**VMEBF comments on the questions**

**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?***

We welcome the creation of a link to a Monitoring Group observing the activities and providing a balanced composition of the Trustees. In this context, the consideration of representatives of family-owned non-publicly listed companies in appointing the Trustees has to be ensured.

**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.***

With concern we note that the vast majority of the proposed members of the Monitoring Group have a strong securities exchange background. To provide an understanding for the needs of non-publicly listed entities in the standard-setting periphery we would recommend the appointment of at least one member of an international organisation with a family shareholder background, e. g. the Private Company Financial Reporting Committee.

**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 IFRSs 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?***

The formulation fulfils its task.

**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?***

As of the proposed composition of the Monitoring Group, we see a continued need for the Trustee Appointments Advisory Group. As described under question 2, the vast majority of the proposed members of the Monitoring Group have a strong securities exchange background. To ensure a balanced composition of the Trustees and an adequate consideration of family businesses' delegates this broadly representative advisory group should further on support the selection of the Trustees.

**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?***

We welcome the expansion of the IASB. However, the IASCF Constitution states that the "selection of members of the IASB shall not be based on geographical criteria, but the Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest" (par. 20). Therefore, expanding the IASB should lead to a higher degree of diversity. With this in mind, at least one of the new members should be a representative of a family-owned non-publicly listed entity.

**Question 6**

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

We do not think that only geographical criteria should be applied in the composition of the IASB. We strongly vote for the explicit appointment of a representative of a family-owned non-publicly listed entity to the IASB. This would also be consistent with par. 25 of the discussion paper and provide the opportunity to appoint members from different backgrounds and with innovative ideas.

**Question 7**

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

It is our understanding that the appointment of part-time members enlarges the pool of competent candidates. Nevertheless, the number of part-time members has to be restricted and their engagement closely watched.