



EUROPEAN COMMISSION

Internal Market DG
Director General

Brussels,
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Mrs Andrea Pryde
International Accounting
Standards Board
30 Cannon Street
London EC4 M 6XH
United Kingdom

Subject: Strengthening the IASB's deliberative process

Dear Mrs Pryde,

The Commission and the Member States, through the Accounting Regulatory Committee (ARC), are pleased to have the opportunity to provide their views on strengthening the IASB's deliberative process. We support fully the various interim measures already implemented by the IASB in order to enhance the accessibility and transparency of its deliberative process.

The wider use of working parties, additional public hearings, round tables and field visits are crucial to enable the Board to understand the practical problems of its constituencies and to draw on the appropriate expertise, especially when dealing with specialised issues. This is even more important in the future as the Board will have to deal with highly specialised industries like the insurance, financial services and extractive industries. Furthermore, the wider economic dimension of accounting standards must be properly considered and impact analysis should be carried out where necessary.

In addition, we strongly support the revised attitude of the Board in respect of comment letters received from interested parties. We support also the Board's proposal to publish comment letters as soon as they are received as well as to provide information and views on the major issues arising at Board meetings. Whilst it is clear that the IASB cannot respond to each comment letter in a formal way, without bringing the whole process to a standstill, it should be standard practice for interested parties to receive a reaction from the Board on important matters brought to its attention. Getting those procedures right is vital for building confidence in the Board's decision making process.

Some of the proposed measures were already mentioned in our letter sent in response to the IASC Foundation's Consultation paper in February 2004. We appreciate that many of our suggestions have been taken up. So as to avoid duplication, we attach a copy of the letter for your convenience. The principles and elements of required due process as laid down in the constitution are generally considered appropriate. However, "Due Process" should not be mechanistic, consisting of a succession of procedures and steps to be respected until the day a final standard is issued. For it to be meaningful, it requires openness, transparency and real dialogue with all constituencies.

The Commission and the Member States are of the opinion that the following suggestions would strengthen further the IASB's Due Process:

(1) Openness of IASB's deliberative process

- As laid down in the IASB's *Preface to International Financial Reporting Standards* re-exposure of existing standards has to be made where there have been significant changes made to proposals subsequent to an Exposure Draft. The purpose of the re-exposure is to enable the public to be informed in a timely manner of subsequent changes introduced by the Board, before a standard is issued. Based on the experience from the past, there is sometimes a substantial time gap between the publication of the exposure draft and the release of the final standard. IFRS 2 *Share-based payment* is a case in point, where the final standard was substantially different from both the original exposure draft and the exposure draft ultimately issued by the IASB. We propose that, in the interest of full transparency, the Board publish on its website successive drafts of its standards on a regular basis. Only in this way can preparers, users and other interested parties be informed fully of the Board's deliberative process, and its latest thinking. We do this in the Lamfalussy process.

- The IASB states that it intends to publish Discussion Papers on various issues, before issuing Exposure Drafts. We support this step since it will help gain expert advice upstream and facilitate consensus building, especially in respect of major accounting changes. However, we are of the opinion that Discussion Papers should be a standard feature of the due process, like at the FASB. To put it into the terms of the IASB: this step should be rewarded with an asterisk.

(2) Transparency of IASB's deliberative process

- Near-final drafts of forthcoming exposure drafts and standards should be made available to the public before the IASB approves them for publication. Although this should have been the new policy after 31 March 2004, we note, for example, that this was not done for the Amendments to IFRS 3 Business Combinations.

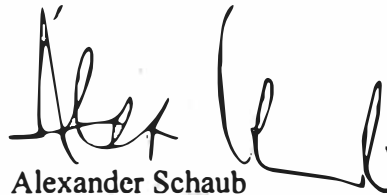
- Editorial updates to new standards or interpretations have to be dealt with prior to the release of a new standard or interpretation. Once a standard or interpretation has been finalized and published, changes should be made only in accordance with proper "Due Process". It is unacceptable to have a "constantly evolving" standard or interpretation without proper due process. And I would also be grateful if you would also try to avoid at all times an endless succession of minor linguistic changes to a standard – which cause us in the EU major difficulties since we have to translate the standards into 20 official working languages of the EU.

(3) Having a real dialogue

- The general comment period should be extended. Due to the fact that, in the EU, 25 different countries are applying IFRS, the IASB must take into account that English is not the native language in every European country. There are 20 official languages in the EU, with the result that the majority of constituents have to look to translations of current Discussion papers, working papers and Exposure drafts in order to participate in the technical discussion. Although this will extend the response time, it will be compensated by having a more enriched and comprehensive discussion. We suggest to extending the general comment period for Discussion papers and Exposure drafts to 180 days, for IFRIC matters to 90 days. There may, of course, be circumstances where the IASB might wish to use a shorter or a longer comment period. Especially if the comment period is shorter, this should be duly justified.

All these measures should contribute to improve markedly the quality of due process and communication between the IASB and its constituents, and in turn increase both the quality of international accounting standards and their ease of application. To enhance the quality of the result of this "Due Process", we think changes are also necessary on the voting procedures as well. From 1 January 2005 onwards, the IASB and IFRIC are the most relevant standard setting bodies for major financial markets around the world. To reflect the increased responsibility of the IASB, approval of a standard or an interpretation should require a qualified majority of the votes, i.e. at least 10 out of 14 members should be supportive.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Alex Schaub', with a stylized, flowing script.

Alexander Schaub

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