



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



**AFEP**

ASSOCIATION FRANÇAISE DES ENTREPRISES PRIVÉES

Tom Seidenstein  
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IFRS Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Paris, July 13, 2011

**Re: Trustees' Strategy Review 2011**

Dear Mr. Seidenstein,

We welcome the opportunity to provide comments on the Report of the Trustees' Strategy Review and are pleased to present these in the Appendix.

Please do not hesitate to contact us if you have any questions or require further explanation.

Yours sincerely,

ACTEO




Patrice MARTEAU  
Chairman

AFEP



Alexandre TESSIER  
Director General

MEDEF



Agnès LEPINAY  
Director of economic  
and financial affairs

## APPENDIX

### A. MISSION : DEFINING THE PUBLIC INTEREST TO WHICH THE IFRS FOUNDATION IS COMMITTED

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#### ➤ Purpose of financial reporting standards and standard-setting activities

**A1:** In carrying out the IFRS Foundation's mission as the standard-setting body, the IASB should develop financial reporting standards that provide a faithful presentation of an entity's financial position and performance. **These standards should serve investors and other market participants in their economic and resource allocation decisions.** The confidence of all users of financial statements in the transparency and integrity of financial reporting is critically important to the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth.

While we agree with the Trustees that it is not possible to satisfy all the different types of potential reporting objectives in a single set of financial reporting statements but all users would be served by transparency and high integrity, we are once again concerned that the focus of the IFRS Foundation appears to be on the investors' perspective alone.

We explained in our response to the previous consultation that it is essential to reconcile the needs of both those who take operational decisions and those who analyse the value that such decisions engender. To achieve this objective, it is fundamental that those who govern the entities are considered to be users of the accounting standards on an equal standing with the investors. Their needs should be taken into account on an equal basis. Reporting entities and their management are one of the primary users of accounting information and are the principal correspondents with analysts on a daily basis. They are therefore stakeholders who are particularly concerned and particularly well placed to give an opinion on the quality of accounting standards.

The growing use of non-GAAP measures by entities across all jurisdictions demonstrates that the IFRSs, as they stand today, do not fulfill the requirement for a common measure of performance. It also indicates that the IASB's mission is not being properly fulfilled since the standards are resulting in a loss of comparability in financial information and, as collateral damage, a risk of the undermining of the internal control culture in entities.

We note in the Strategy Review Response Analysis that nearly a quarter of the European responses share the idea that the Constitution should also emphasize the role of stewardship in financial reporting; in spite of this, we do not see any reference to stewardship in the recent proposals.

Investors' needs, as frequently expressed in the IASB's analysis, are too often translated into short-term valuations, which in our view is not consistent with the long-term financial stability and sound economic growth objectives as mentioned in the Trustees proposals, paragraph A1. We therefore suggest that the notion of users should be redrafted to encompass specifically management and both short-term and long-term investors.

The IASB must look after the interests of the whole user community. In other words, it must consider the interests of all the stakeholders without privileging any particular sub-group arbitrarily.

Regarding public policy objectives, we agree that financial statements cannot fulfil all the needs by themselves. On the other hand, all organisations, such as regulators and committees responsible for financial stability, share with the IASB the common objective of making markets more efficient. A suitable Due Process may enhance a dialogue with all the stakeholders, firstly to ensure that their needs are clearly understood and, secondly to assess appropriately the potential impact of new standards on market stability.

### ➤ Global adoption of IFRSs

**A2:** The body tasked with achieving a single set of improved high quality global accounting standards, the IFRS Foundation must remain committed to the long-term goal **of the global adoption, in their entirety and without modification, of IFRSs as developed by the IASB.**

Convergence may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period of time to implement but, whatever the mechanism, they should enable relevant entities to have an audit opinion stating full compliance with IFRSs as issued by the IASB.

While we can understand the long-term objective of a global adoption of IFRS, in its entirety and without modification, we believe that such commitment goes beyond the Trustees' mission. In fact, the Trustees should ensure that the IASB produces set of high quality standards but should not take the place of the relevant authorities in charge of adoption in each jurisdiction. The best way for the Trustees to protect the IFRS Brand is to ensure that the accounting standards that are developed by the IASB are of high-quality and well accepted.

**A3:** With co-operation from national and international market and audit regulators, the IFRS Foundation should seek full disclosure where adoption of IFRSs is incomplete or there is divergence from the full set of IFRSs as issued by the IASB. The IFRS Foundation should seek a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully.

Again, we do not believe that this action should be monitored by the Trustees. As proposed in paragraph A5, the Foundation should only encourage transparency concerning such divergence, in partnership with relevant authorities, and should not impose any additional disclosures.

### ➤ The scope of IASB's work

**A4:** *In the near term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for private sector entities (both publicly traded entities and SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and for other purposes at a later date.*

We agree that the primary focus should remain, at least for the time being, on developing standards for private sector entities only, and not-for-profit organisations should not be addressed.

In one of our previous letters concerning the IFRS Constitution, we had suggested the creation of a separate Committee from the IASB, which would take responsibility for setting standards applicable to private sector entities without public accountability.

We also believe that Trustees should assess to what extent the growing sophistication of IFRS and the increasing related burden are acceptable for small and medium-sized listed companies. Standard setting by the IASB should not make access to financial markets continually more difficult and more costly for smaller entities.

Finally, concerning the SMEs standard, we continue to be of the view that it should be revised as is still too complex for small and medium-sized non-listed entities and does not provide a valid alternative to full IFRS at present.

➤ **Consistent application of IFRSs**

**A5:** In pursuing its mission, the IFRS Foundation has a vested interest in helping to ensure the **consistent application of IFRSs** internationally. The Foundation should pursue that objective in the following ways:

- The IASB, as the standard-setter, should issue standards that are **clear, understandable and enforceable**.
- The IASB will provide guidance on its standards that is consistent with a **principle-based approach** to standard-setting. All application guidance and examples must be necessary to understand the principles.
- The IASB will work with a network of securities regulators, audit regulators, standard setters and other stakeholders **to identify divergence in practice**. Where divergence in practice could be resolved through an improvement in the standard or an interpretation, the IASB or the IFRS Interpretations Committee will act accordingly.
- The IFRS Foundation, **through its education and content services, should undertake activities aimed at promoting consistent application**.
- The IASB, **in partnership with relevant authorities**, will identify jurisdictions where IFRSs are **being modified and encourage transparent reporting of such divergence**.
- The IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective

We fully agree with these proposals which reflect the comments made in our previous response to the Strategy Review. Consistent implementation and application of IFRS across the world are dependent on the proper functioning of the current instances and processes already in place, at all levels.

We are nonetheless more cautious about the education services proposed. In our view, there is a risk that the explanations given during educational sessions could be considered by constituents to be interpretations or as best practice to adopt. We do not think that this is an appropriate role for a standard setter to play.

***B. ENHANCING GOVERNANCE ARRANGEMENTS TO STRENGTHEN PUBLIC ACCOUNTABILITY AND INDEPENDENCE***

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**B1:** The **independence** of the IASB in its standard-setting decision-making process, within a framework of public accountability, **must be maintained**.

We agree and fully support the independence of the IASB in its standard-setting decision-making process. Nonetheless, independence should not prevent accountability. We therefore support the idea of a public accountability framework. Please refer to our comments related to the Trustee's oversight of the IASB's due process.

**B2:** The **existing three-tier structure** (Monitoring Board, Trustees, and IASB) is **appropriate** for the organisation's mission. Within that governance structure, the Monitoring Board, the IFRS Foundation and the IASB **should enhance their interaction and procedures** where appropriate to reinforce the principles of transparency, public accountability and independence. In doing so, the **roles and responsibilities of each element of the organisation's governance should be clearly defined**.

We also agree that the current existing three-tier structure is appropriate and we welcome the effort made by the Trustees to better define and articulate the respective roles of the bodies.

In addition to the proposed responsibilities, we believe that the Monitoring Board should also have a right of oversight over the Constitution and the Governance, including the obligation to approve formally the appointment process of the Chairman of the IASB.

**B3:** Consistently with point B2, the Trustees should further clarify how they discharge their oversight responsibilities.

We agree that Trustees' oversight responsibilities should be enhanced and formalised.

However, we believe that such responsibilities should go beyond the mere review of the IASB's due process. Since the body of IFRS literature should meet the requirements of the public interest, the Trustees should ensure that the strategic direction and work programme of the IASB are appropriately determined, respond to the identified needs of all users of financial statements, including those of long-term investors and companies, and take due account of the public interest. We thus believe that Trustees should validate objectives assigned to financial reporting, strategic orientations and the IASB work programme.

**B4:** Elements of the governance structure should provide regular public reports to demonstrate their effectiveness

We agree that the Trustees should communicate better in order to make their oversight activities more visible to the general public. It is important to promote the role of the Trustees and the outcome of their oversight activities, in order to establish their legitimacy and strengthen stakeholders' confidence.

### **C. STRENGTHENING THE PROCESS AND THE PROCEDURES OF THE IFRS FOUNDATION AND THE IASB**

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#### ➤ **Due process and benchmarking**

**C1:** A thorough and transparent due process is essential to developing high quality, globally accepted accounting standards. The IASB's due process is, and should continue to be, reviewed and further enhanced regularly, benefiting from regular benchmarking against other organisations and from stakeholder advice.

We agree that a thorough and transparent due process is essential to develop high-quality, globally accepted accounting standards.

Trustees should not only oversee compliance with the existing due process but they should also be involved in its enhancement so that it responds to the changes observed in the IFRS environment: a growth in new country adopters, with particular attention paid to governments as the consequence of the financial crisis; an increasing involvement of all stakeholders in the standard-setting process; and a growing demand for more transparency, which is an essential condition for the IASB's independence.

#### ➤ **Trustee's oversight of the IASB's due process**

**C2:** The framework for the Trustees in their oversight of the IASB's due process should be clarified. The Trustees' Due Process Oversight Committee should review and discuss due process compliance regularly throughout the standard-setting process and at the end of the process before a standard is finalised. The Committee should report regularly on these activities to the Trustees and in its annual report.

We agree that the Oversight Committee should be involved throughout the whole standard-setting process with a regular and systematic review. These reviews should not be limited to a unilateral statement from the IASB to the Trustees but should also be performed in such a way as to promote a genuine challenging debate about the process.

In this regard, we are particularly concerned by the recently published standards related to “consolidation”. In fact, the only public document available which reports on the due process is a short presentation issued by the IASB explaining how well they have performed and why these five new or amended standards can undeniably be published. There is no evidence of any challenging discussion whereas, in our view, at least two of these new standards may lead to significant and costly changes in financial reporting.

We sincerely hope that this deficiency is only due to the recent implementation of this new oversight process and we expect an improvement in the future, more particularly for the forthcoming very controversial standards dealing with Lease Contracts and Revenue Recognition.

Finally, we fully share the recommendations made by EFRAG in its letter issued on March 8th regarding how the oversight may be improved:

- More attention should be paid when the same comments keep on being raised by a majority or a significant minority of constituents;
- More consideration should be given to an accounting solution when it is most acceptable to the widest range of stakeholders in the community of constituents;
- Greater oversight should be provided when deciding where exposure is needed in order to avoid making changes to IFRS without sufficient public consultation.

On this matter, we are firmly of the view that the criteria for re-exposure may usefully be reconsidered because they do not always seem appropriate, since the criteria mean that circumstances for re-exposure are very limited. One may take as an example the “Revenue Recognition” project, where the Board has finally decided to publish a new exposure draft but has emphasised that the due process does not make it mandatory. Even though we strongly support the Board’s decision, we believe that this conclusion should have been driven by the handbook criteria, not only a decision taken at the Board’s discretion;

- Whenever the IASB encounters strong or widespread objections to, or rejections of, its proposals from a large group of stakeholders, this may indicate that either the suggested changes will not bring any improvement in practice, or the suggested changes are premature. In these circumstances, we believe that the IASB should not be allowed to go any further unless it can clearly demonstrate that is in the public interest to continue.

#### ➤ **Stakeholder feedback and enhancements in the agenda-setting and standard-setting process**

**C3:** Building on the existing due process framework and in an effort to improve the usability of financial information, the IASB should undertake the following:

- Clear demonstration of how priorities on its agenda are set: In the agenda-setting process, and after the required public consultation, the IASB should provide full feedback. This will assist in demonstrating how the IASB’s priorities are set.

We welcome the Constitution amendment that requires public consultation on the IASB’s agenda and we agree that the IASB should provide full feedback after each consultation.

We also believe that the Trustees have an important role to play in the agenda-setting process by ensuring that the agenda proposals are consistent with a general framework of objectives and principles to which all the stakeholders subscribe. It is therefore not only a technical issue and this task requires more involvement from the Oversight Committee.

The current agenda, which was set without any consultation of, or consensus from, the whole group of stakeholders, has set the objectives of convergence as all-important and it has resulted in the complete reworking of a number of standards. The necessity of carrying out a number of the projects is contested by most of the stakeholders, whilst essential improvements and additions to other standards seem to have been consigned to oblivion.

For each proposal, the Board should clearly lay out the main direction of the project, the objectives of the changes, the reason why these changes are necessary and the principles that will be developed. These “feedback statements” for each agenda proposal, should be validated by the Trustees.

- [Agreed methodology for field visits/tests and effect analyses: The IASB should work with relevant parties to develop an agreed methodology for field visits/tests and effect analyses \(more often referred to as cost-benefit analyses or impact assessments\).](#)

We agree that effect analyses are crucial before a final standard can be issued and it should be a mandatory step in the standard-setting due process. It is the only possible way to assess whether the costs of implementation, at both the micro-economic and macro-economic levels, will not exceed the benefits expected from the new standards; it could also be viewed as a “public fatal-flaw review” to ensure that the future guidance will be well and consistently interpreted and keep the risk of internal control failure at an acceptable level.

Such field test and effect analyses should not be considered to be just an additional administrative burden. Indeed, entities will participate only if concrete results can be expected to come from them.

To ensure full and active participation from entities in these exercises, Trustees should conduct marketing and communication actions to convince entities of their usefulness. Furthermore, companies should also be involved in developing an agreed methodology.

- [Integration of XBRL into the standard-setting process and the development of relevant XBRL taxonomy extensions: In order to take into account the impact of technology, the development of the IFRS XBRL taxonomy should be integrated into the IASB’s due process. In addition, the IFRS XBRL taxonomy should be expanded to include a relevant number of extensions to the existing base taxonomy.](#)

We do not agree with the proposal to integrate XBRL in the standard-setting process. XBRL should be viewed only as a tool to facilitate some financial communication but should not be considered as an essential part of the process of developing a high-quality, principle-based standard. The IASB should remain focused on rationalizing disclosures required in notes to financial reporting, a task that is now considered as a priority by many constituents. Today there are many other more pressing issues to address (conceptual framework, performance reporting), and we think the Board should not devote time and resources to integrate XBRL in its standard-setting process. Finally, this proposal will certainly lead to added complexity and cost for IFRS implementations.

➤ **Actions aimed at consistency of IFRS implementation**

**C4:** To support the IFRS Foundation's interest in consistent application of IFRSs and within the IASB's standard-setting mandate, the Foundation and the IASB should undertake the following actions:

- using an agreed methodology, undertake post-implementation reviews to help identify implementation issues
- establish formal co-operation arrangements with securities regulators, audit regulators and national standard-setters to receive feedback on how IFRSs are being implemented and to encourage actions aimed at addressing divergence.
- refine the scope of the IFRS Interpretations Committee's activities to ensure consistency of interpretation, without undermining the commitment to a principle-based approach to standard-setting.

We agree with the actions proposed to guarantee a consistent application of IFRSs. One of the main advantages of an international common accounting language is comparability. Comparability should not be undermined by divergent application. Nonetheless the exercise is quite challenging and we agree that this objective of consistency should not call into question the commitment to a principle-based approach to standard setting.

We believe that the IFRS Interpretation Committee (IFRS IC) is going to play a more important role in the near future for the following two principal reasons: firstly the more countries that are to adopt IFRS, the greater is the need to harmonise implementation; secondly, the IASB is currently proposing major changes in some of the current, well established and well understood standards that may lead to an increase in interpretation and application issues. We have responded to the Trustees' review about the IFRS IC and we hope that our principal comments and proposals will be taken into consideration.

➤ **Importance of national and other accounting standard-setters**

**C5:** The IFRS Foundation and the IASB should encourage the maintenance of a network of national and other accounting standard-setting bodies as an integral part of the global standard-setting process. In addition to performing functions within their mandates, national and other accounting standard-setting bodies should continue to undertake research, provide guidance on the IASB's priorities, encourage stakeholder input from their own jurisdiction into the IASB's due process and identify emerging issues.

We agree with the role given to national standard-setters in relation to IFRS and, as mentioned in our previous letter, we believe that the national standard setters, as well as EFRAG, Companies and all other stakeholders should actively be encouraged to be fully involved in the standard development process by addressing comments and proposals relating to the IASB work programme and accounting proposals.



➤ **Dedicated research capacity**

**C6:** To provide thought leadership in the field of financial reporting, the IASB should establish, or facilitate the establishment of, a dedicated research capacity.

We agree that research is an essential tool in developing a high quality set of standards. Nonetheless, to be useful research activity should not be disconnected from the technical IASB agenda and should not be too theoretical, but it should be sufficiently orientated towards practical issues and operational approaches.

Finally, we wonder if the proposal that the IASB should develop a “dedicated research capacity” is a good idea. We think it is preferable for the IASB to create a favorable environment for research and to encourage its pursuit. It should rely on existing structures (EFRAG and NSS proactive works, for example) to provide it with the results of research.

**D. FINANCING : ENSURING THAT THE IFRS FOUNDATION HAS A BROAD AND SUSTAINABLE SOURCE OF FUNDING**

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**D1:** The funding system must maintain the independence of the standard-setting process, while providing organisational accountability.

**We fully agree that the Trustees should develop a sustainable funding system in which none of the** major groups of stakeholders must clearly appear to be predominant in the IASB’s financing, in order to maintain the independence of the standard-setting process. We agree that the public sponsorship considered is a good solution to avoid any perception of undue interference by some interest groups.

Nonetheless, we are more cautious when the Trustees propose an “automatic funding system” and we would like this notion to be better developed before giving our full agreement to the proposed system.

We believe that any funding must be conditioned on a strong and globally accepted governance structure.

**D2:** The existing base of financing should be expanded to enable the IFRS Foundation to serve the global community better and to fulfil the strategy described above. Specifically, funding should be proposed by the Trustees to be on a long-term basis (at least three to five years), be publicly sponsored, be flexible to permit the use of differing mechanisms and to adjust to budgetary needs, be shared among jurisdictions on the basis of an agreed formula (consistent with the principle of proportionality), and to provide sufficient organisational accountability.

We agree that funding should be managed on a long-term basis, but this does not mean that funds should be collected other than on a short-term basis (annually for example).

We also agree that the collection mechanism should be delegated to each jurisdiction in a sufficiently flexible way to ensure independence.

Concerning the mention of the need for flexibility to adjust financing to budgetary needs, we believe that it is absolutely essential that such adjustments be justified publicly in a transparent way, with an obvious link to the evolution of the agenda, and approval by the Monitoring Board.

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