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

Mouvement des Entreprises de France
MEDEF

AFEP

ASSOCIATION FRANÇAISE DES ENTREPRISES PRIVÉES

IFRS Foundation
30 Cannon Street
London EC4M 6XH
UK

Paris, September 3, 2012

Re: *"IASB and IFRS Interpretation Committee Due Process Handbook (the ED)"*

Dear Sir or Madam,

It is with great interest that we welcome this consultation as we always pay very special attention to new projects aimed at improving IFRS standards and their environment. Indeed, as major users of accounting standards, we feel very involved in the entire accounting standard due process.

Concerning the **Due Process Oversight Committee**, please find below our main comments:

- We support the fact that the DPOC has enhanced its role and that the handbook now includes sections that reflect these changes. However, we believe that these proposals represent the very minimum that should be expected and in our view do not go far enough.
- Indeed, as mentioned in our answer to the Constitution Review phase II (March 2009), we believe that the Trustees, through the DPOC, should be more involved in the agenda-setting process and in deciding upon the strategic orientations of the IASB. While we agree that the IASB should remain independent in its technical work, in our view, such technical work does not necessarily include :
  - Setting the agenda (launching significant projects, fundamental reviews of standards requiring a discussion paper as a first step);
  - Making strategic shifts which influence the final accounting model (shifts from the existing practices that profoundly modify the information provided to users).

- We agree with formalizing a Due Process Protocol and making this available on the public website. However, we think that this represents the minimum of internal control which is essential for all institutions.

  Indeed, these reviews of the due process should not be limited to a unilateral statement from the IASB but should also be performed in such a way as to promote a genuine challenging debate about the process.

  We also believe that some areas which are not covered by this protocol are actually more challenging: as an example, when all the due process steps have been met, but doubts and disagreements still persist (within the IASB itself), the Trustees should be able to initiate some qualitative assessments before the publication of the final standard in order to ensure that only approved strategic shifts are implemented.

- Finally, we agree that the DPOC should be responsible for approving the composition of the IASB's consultative groups but we wonder why the same transparency is not required for representative groups.

Concerning **the new due process in the agenda setting,** our main comments are as follows:

- We strongly support the implementation of a research programme and the establishment of a Discussion paper as mandatory preliminary steps to any inclusion of a project on the active agenda. We therefore disagree with the idea that a Discussion paper is not a requirement (paragraph 5.2).

- We also agree with the criteria for new IFRSs as set out in paragraph 5.1, but believe that they should be complemented with a clearer requirement for evidence of the need to fill a gap or improve / develop a standard to deal with specific issues.

- We also fully support the mandatory assessment of the costs / benefits balance (although we think these notions need to be more clearly defined) and as such, we believe that this test should be strengthened and reintegrated as one of the main criteria for the decision to proceed with new IFRSs. In our view, the cost/benefit assessment is a fundamental criterion for the decision to proceed with a project and should therefore take place at a very early stage in the process. All stakeholders should be involved in this analysis, which should not just be the result of empirical research carried out by the Board. To do so, the IASB should consult a range of panels of experts, drawn from and representing all categories of stakeholders.

- Finally, despite all these improvements, we have some strong reservations concerning the role and place given to the Framework. Although we welcome the inclusion of some specific paragraphs in the revised handbook, we do not agree with the conclusion stated in paragraph 4.26. The Conceptual Framework should not merely be considered as a standing or background activity which does not necessarily have a direct relationship with standards under development, but should be viewed instead as a fundamental basis of IFRS that should drive all other projects. We also believe that the Conceptual Framework should not be the responsibility of the IASB alone but should also be overseen by the Trustees to ensure that the fundamental concepts to be developed meet the needs of all stakeholders properly.

We also have some comments about the focus made on a **consistent application of IFRS**:

While we agree that consistent application is necessary to ensure that IFRS remains synonymous with a high quality set of standards, we do not agree with all the orientations proposed in this draft:

- Comparability, which can be artificial and misleading where there is a valid reason for differences, should not be considered as the main and sole objective; predominance should be given to relevance and economic substance.
- Application of standards should not be the responsibility of the IASB. The IASB should be responsible only for developing high quality standards, based on robust and relevant principles. Management should then use its judgment and take responsibility for determining the most appropriate accounting model consistent with those standards and applying it to the specific circumstances and transactions. This, must be done under the control and responsibility of the auditors.
- While we agree with lengthening the minimum comment period for IFRIC rejection notices, we do not agree with the recent decision concerning the way rejections should be drafted. Indeed, in order to avoid the risk of creating any "de facto" interpretation, we believe that the rejection notice should only state the fact that the Committee will not address the issue that has been submitted.

Finally, we also have concerns about other areas of this exposure draft:

- We do not agree with the proposal to reduce the comment period for re-exposure drafts as we believe that all stakeholders should have the opportunity to analyse thoroughly the whole issue and prepare a response of quality.
- As already mentioned in some of our previous comment letter, we believe that the approval of final standards should require higher majority thresholds than those proposed in the ED. A *simple majority* should never be less than two thirds of the IASB members present. Such a requirement would be consistent with the level of independence that IASB has in its technical work. In the case of the proposed use of the *supermajority,* we would point out that constituents rely on 14 (soon to be 16) individuals to provide high quality financial reporting standards. When up to five (or 6) members of the IASB can dissent from a standard proposed for publication, the level of controversy within the IASB indicates a major flaw in the standard. In our view, a final standard or similar document should require a higher level of support from the IASB members to have the authority expected of it.

Yours faithfully,

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Patrice MARTEAU Chairman	François SOULMAGNON Director General	Agnès LEPINAY Director of economic and financial affairs