FRC

Financial Reporting Council

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Dear Göran,

Strengthening the European Contribution to the International Standard-setting Process – Proposals for Public Consultation

The Financial Reporting Council (FRC) is the United Kingdom's independent regulator responsible for promoting confidence in corporate reporting and governance. We appreciate the opportunity to comment on the proposals for the restructuring of EFRAG as set out in the recent consultation paper.

The FRC is very committed to assisting EFRAG to achieve the success that it needs, bringing together constituents from around Europe in a constructive and efficient manner. We have demonstrated that commitment by, for example, bearing the costs of EFRAG's technical director (without recharging EFRAG) and the Accounting Standards Board (ASB) has invested significant amounts of time both in TEG and in the Pro-active Accounting Activities in Europe (PAAinE) initiative, working with EFRAG and the European National Standard Setters. As you are aware, in recent months we have also committed to operating a national funding mechanism in the UK (provided that the EFRAG funding proposals receive the support of the UK community), to providing a short term cash contribution until the funding base has stabilised.

Against this background we particularly welcome the fact that the Supervisory Board has published a public document to set out its proposals and seek comment from constituents. We believe that the proposals represent a positive step forward.

Planning and Resource Committee (PRC) and Technical Experts Group (TEG)

We welcome the establishment of a separate PRC to consider how best to take forward proactive work. We also note, and support, the proposal that no major changes are proposed to the current work of the TEG. From the UK perspective, the Accounting Standards Board (ASB) will continue its active participation in the work of TEG and is committed to play a full part in the pro-active work of the PRC, in partnership with EFRAG and other National Standard-Setters. We note that all technical papers, including the proactive papers, will need to be approved by the TEG in order to be issued with the EFRAG 'brand'. The other partners in the PRC, as independent bodies, will need to adopt a similar process for their 'brands' to be associated with any document.

Supervisory Board

We believe that the proposed balance of the Supervisory Board is too weighted to preparers and too little weighted to the users of financial reports. Assuming that the "accountants" group is principally made up of auditors the overall balance is excessively weighted to those who create and check information prepared for the market and insufficiently weighted to those who rely upon that information to assess the performance of management and make executive decisions.

Further, in our view a board of 17 is likely to be cumbersome and it will be more difficult to develop a consensus.

In view of the undertakings received from a number of countries to operate national funding mechanisms the time that the Supervisory Board spends on fund raising might reasonably be expected to reduce. Accordingly, we would suggest that a smaller body could achieve the Board's oversight objectives. That said, we note the intention to review the size and composition of the Supervisory Board after a two year period.

General Assembly

The FRC does, however, have concerns with the proposed approach for the constitution and membership of the General Assembly. The proposal that a General Assembly should be appointed by the "founding fathers" of EFRAG whose votes are based on their individual cash contributions is wholly inappropriate for a body operating in the public interest. The proposed approach will persistently raise fundamental questions about the independence of the selection of Supervisory Board members and those that they appoint to subsidiary committees and groups. The concept of introducing an "associate member" would, to our mind, simply compound the problem, by sending a clear message that money buys a vote, and hence influence. In our view, the proposed approach risks undermining the authority of EFRAG to be seen to act in the public interest.

Further, the proposal that votes be based exclusively on their cash contributions ignores the in-kind contribution made by a wide range of constituents and the fact that EFRAG expects in the future to raise the majority of its funds by way of levy on companies and thus indirectly by investors for dividends forgone. If these contributions were taken into account there would be a substantially different representation on the general assembly.

In our view, the model to be adopted should be more closely aligned with the monitoring group approach adopted by IFAC and recently proposed by the IASC Foundation. Under this alternative approach the Supervisory Board would continue to be responsible for seeking out new trustees and for appointing its chairman, but this process would be monitored by a group representing the public interest and providing a public accountability link to, ultimately, the European Parliament, but in a way which preserves EFRAG's operational independence. We believe that the group should comprise, senior representatives of significant European organisations which operate in the public interest, such as the European Commissioner responsible for the internal market, the President of the European Central Bank, and the Chairmen of CESR, CEIOPS and CEBS.

If you would like to discuss any of our comments, then please contact Ian Wright on +44 (0)20 7492 2330.

Yours sincerely

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