

European Financial Reporting Advisory Group  
13-14 Avenue des Arts  
B-1210 Brussels  
Belgium

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## Strengthening the European contribution to the international standard-setting process

### Proposals for Public Consultation

The CFA Institute Centre for Financial Market Integrity (“CFA Institute Centre”) welcomes the opportunity to comment on EFRAG’s “Strengthening the European contribution to the international standard-setting process - Proposals for public consultation” (the “Consultation”).

We agree with the rationale behind the proposals, aiming at the development of a more effective infrastructure that would allow Europe to better contribute to the international standard-setting process. Therefore, we are supportive of EFRAG’s initiative to enhance its governance in order to better articulate the European perspective in the context of international convergence of accounting standards. With this vision, we agree in general with the new proposals to establish new structures to ensure a broader accountability of EFRAG. The proposed representation mechanisms point in the right direction and take into account the need to enhance EFRAG legitimacy.

However, while we welcome efforts to better represent European institutions and users, we believe that for what concerns users and Associate Members in particular, better representation will not translate into increased influence.

Consequently, while we recognize that improvements compared to the previous EFRAG’s structure are substantial, we believe that more needs to be done. We would like to see in particular two changes that would increase the organisation’s legitimacy and its effectiveness. The first would affect users’ representation outside the General Assembly. We propose the establishment of a due process that would make users of financial reports a compulsory percentage of Supervisory Board members sitting in other committees. The second one concerns the impact of Associate Members. We would like to see the implementation of a framework allowing Associate members in the General Assembly to increase their influence. This could be achieved through changes to be made at the proposed voting structure. Such voting structure as it stands now would in fact make their presence ineffective.

Overall, we believe that the proposals set out herein will help to produce a more coherent governance structure.

We attach our response that addresses the questions of the Consultation. Please do not hesitate to contact us, should you wish to discuss any of the points raised.

Yours faithfully,



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### *Purpose*

We agree with the need for a more proactive role of EFRAG. As the EU becomes an ever-increasing regulatory power in global financial affairs, we cannot but support the rationale behind the proposed EFRAG framework. The EU needs to make its political and technical input in the process of convergence of accounting standards heard. In order to do so, more effective structures to articulate its requirements are essential.

Changes in the governance structure, the creation of the Planning and Resource Committee (PRC), together with the increasing involvement of National Standard Setters (NSS), seem to point in the right direction. Moreover, further coordination of NSS, together with an increased funding of the organisation, would allow for a more effective use of European resources and technical competencies.

### *Independence and users representation*

The Centre appreciates the greater involvement of EU institutions and NSS at key points of the decision making process, and the greater transparency that should be assured by the opening to the public of the SB and PRC meetings. We also appreciate the awareness of the need to ensure a better representation of all European stakeholders within EFRAG. We therefore support the changes made to the representation structure in order to reflect this need.

However, if the changes made at EFRAG's governance structure seem to ensure a better representation of European stakeholders, this does not necessarily translate into the ability to effectively influence EFRAG's decision-making process.

For what concerns the General Assembly (GA), the inclusion of the figure of "Associate Member" needs some scrutiny. These new members would enjoy a high-level representation within EFRAG, thanks to their admission to the GA, but their contribution seems to end here. It is not clear how this new member category, although helpful in

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<sup>2</sup> CFA Institute is best known for developing and administering the Chartered Financial Analyst curriculum and examinations and issuing the CFA Charter.

ensuring a more representative membership, will have its voice heard, as they will not be able to vote within the General Assembly. This despite their financial contribution, albeit reduced, to the funding of the organisation.

Voting rights within the GA are crucial in order to influence the decision-making process of the organisation and shape its input. The GA considers and approves the organisation's annual report and establishes the Governance and Nominating Committee (GNC), which in turn makes recommendations to the GA on the appointment of the Supervisory Board (SB) members. Then the SB appoints PRC's members and the Technical and Expert Group (TEG) members. Such a voting structure would make the input of associate members not only negligible within the GA but also ineffective within the organisation. Associate members would not be able to influence EFRAG's key committees: the Planning and Resource Committee and the Technical and Expert Group. This decision-making deficit is clear and seems not to be mitigated by the clear definition of a due process according to which these members' input would be fully taken into account.

Consequently, changes at the voting structure within the General Assembly are necessary in order to make the presence of other stakeholder representative organisations relevant within EFRAG.

For what concerns the SB, the Centre welcomes the end of the direct link between funding, representation and voting rights, which certainly points in the right direction. We clearly support the inclusion of four persons representing users and four public policy members. The latter element in particular will be fundamental in ensuring the representation of a broader European perspective within EFRAG. However, a deeper analysis of the equilibria within the SB reveals the little influence that users could actually have in the SB decision-making process. Their number (4) would not be sufficient in order to represent their views in the case of confrontational issues. The situation could even be more unbalanced "in the event that sufficient high quality candidates with a particular background cannot be found at any time", given the different composition of the SB that could result.

The situation within the PRC deserves particular attention, as this committee should become the crucial element of EFRAG's proactive work and the main instrument to influence the agenda of the IASB. According to the proposal, its composition would be as follows: four senior NSS representatives, two members from the SB and two additional members (who could have alternative backgrounds or be part of the SB as well) and the TEG Chair. Of course, among the two, or four, members coming from the SB, there could be representatives of the users' community. However, the proposal does not state from which SB members group these members should be drawn. The Centre therefore calls for the proposed framework to be clearer in this respect.

To sum up, there is a lack of commitment to ensure the equal representation of users and founding organisations at all levels of EFRAG, in particular in its key committees. Users have provided a valuable contribution to EFRAG's activities with their positive and different comments and with their point of view on accounting issues. In light of this contribution, acknowledged by EFRAG Annual Report 2007, the lack of an explicit users' representation in the key committees is even more striking. This is true especially for what concerns the PRC, the most important new element in EFRAG's structure.

We sense that an explicit due process that would make the presence of users compulsory within the Planning and Resources Committee is an essential part of a truly representative EFRAG.

*Technical expertise*

The quality of EFRAG's work has been extremely high since its creation. Changes at the governance structure should not undermine such a quality. Rather, this could improve thanks to increased funding and resources. However, we sense that greater users' involvement would be constructive for EFRAG, as it would enhance its legitimacy. For this reason, we appreciate the commitment not to over represent any specific group within the TEG.

For the same reason we support the proposed balanced composition of the Consultative Group. This, according to the Consultation, will include European commercial, industrial and financial services organisations, together with high-level representatives from the accountancy profession, users and the academic world.

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