



**Liberté • Égalité • Fraternité**  
**RÉPUBLIQUE FRANÇAISE**



**Conseil National de la Comptabilité**

3, Boulevard Diderot  
75572 PARIS CEDEX 12

Téléphone 01 53 44 52 01

Télécopie 01 53 18 99 43/01 53 44 52 33

Internet <http://www.cnc.bercy.gouv.fr>

Mel [jean-francois.lepetit@cnc.finances.gouv.fr](mailto:jean-francois.lepetit@cnc.finances.gouv.fr)

**Paris, September 23, 2008**

**Le Président**

**JFL/EP**

**n°503**

**IASCF**

**Constitution Review**

**30 Cannon Street**

**London EC4M 6XH**

**UNITED KINGDOM**

Ref: IASCF Constitution Review

I would like to thank you for giving us the opportunity to comment on the document setting out changes to the IASCF Constitution which makes practical proposals for reinforcing the “accountability” of the IASB, the need for which has been identified by constituents.

The need for this orientation is confirmed by the financial crisis, which has clearly established that, although accounting standards are not the cause of the crisis, they contributed to it, as they affect directly the behaviour of banks and other market participants. These standards like prudential rules must be seen to be coherent to be robust, legitimate and contribute to financial stability. The search for this coherence is an issue of public interest which will contribute to overall legitimacy as it will to that of the individual stakeholders, including the standard-setter.

The creation of a Monitoring Group (MG), an independent supervisory body, defined by the Constitution which decides its missions and composition whilst its relationship with the Trustees will be defined in the MOU, is an excellent practical response to this issue. It does not affect the independence of the technical bodies of the IASB, nor the process of preparing and adopting standards which must remain of high quality.

The composition of the MG very rightly includes the regulators that define the form and the content of financial information. The no less essential contribution to market stability of those ensuring the prudential supervision of regulated financial industries on the one hand, and those ensuring financial stability on the other hand, pleads in favour of extending the composition of the MG, with the objective once again of reinforcing overall legitimacy.

The involvement of the MG in the nomination process of trustees, as part of a positive and transparent procedure, ensures the suitability of candidates for functions for which the selection criteria are unchanged. This orientation is consistent with the objectives of the review of the IASCF Constitution aimed at reinforcing the role of Trustees and of the Trustee Appointments Advisory Group (TAAG).

The use of an accelerated procedure for introducing the MG into the Constitution is perfectly justified by the objective of the consultation which aims at increasing overall accountability ; it will enable rapid implementation. It is however regrettable that the consultation period was too short.

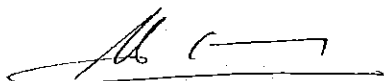
The due process planned for the adoption of the Chart of the MG and of the MOU between the MG and the Trustees should also enable a rapid implementation. To make the organisation more efficient, the Constitution should define the main principles which will be developed in the MOU, by highlighting the main responsibilities of the MG, other than its participation in the nomination of Trustees, which should be expressed as follows:

- Ensure the Trustees meet their constitutional commitments , in particular by monitoring the way supervision of the standard-setting process, work programme and funding of the IASB is exercised ;
- Discuss with the Trustees issues of public interest such as the effects of proposed standards on the economy.

In addition to the proposed reforms, we consider that the review of the Constitution, which should be carried out rapidly, should address the responsibilities and role of the Trustees; in particular, a procedure could be introduced whereby the President of the Trustees could be informed by one or more stakeholders of any major difficulty of public interest and that the MG would also be informed so that the President can ensure that the questions raised are dealt with the IASB.

These are the main observations on the document for comment .Please find the detailed replies to the questions in the appendix.

Yours sincerely



Jean-François LEPETIT

## **Appendix to the letter of comments on the "IASCF Constitution Review"**

### ***Questions related to the Monitoring Group***

#### ***Question 1***

*Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions ?*

This change will enable all stakeholders to become involved. It is essential to reinforce the legitimacy of accounting standards. At the same time it will contribute to the first objective of the IASCF Constitution, which is to promote standards over the largest economic zone possible.

#### ***Question 2***

*The proposals contemplate a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognising that the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group's membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.*

There are very many stakeholders concerned by the standard-setting process as the document for comment emphasizes. The proposed composition of the Monitoring Group would enable the association of institutions which contribute directly to financial stability, a goal of public interest alongside the financial market regulators. Considering their position and their involvement, it would be useful to extend as from now the composition to include, on the one hand those ensuring the prudential supervision of the regulated financial industries, and those ensuring financial stability on the other hand, so that the need to change the composition does not arise at a later date. Adding one or two members to the Monitoring Group would not give it an excessive size (N.B. the Trustee Appointments Advisory Group (TAAG) comprises nine members today); however, this would mean that geographical balance within the enlarged MG will have to be carefully considered.

An option which could be considered would be to add a representative of the preparers and users of financial statements but it would probably be difficult to come to an agreement on the choice of a single representative structure. Moreover, the IASCF Constitution already stipulates that Trustees should represent in a balanced manner the professions involved in the setting of accounting standards ; a way to achieve greater involvement in the monitoring of the IASB's work programme would be to redefine the mandate and the composition of the Standards Advisory Council (SAC) .

#### ***Question 3***

*The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRS to review the Trustees' fulfilment of their constitutional duties. Does the formulation of the Monitoring Group's mandate and the Trustees' reporting responsibilities, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?*

The revised section 19 of the Constitution sets out the concrete responsibilities of the Monitoring Group but it would be useful to precede the section with a paragraph setting out the objectives

underlying the creation of the Monitoring Group, which is to ensure the supervision of the activities of the IASCF in the public interest. This paragraph which would define the main themes of the MOU would define clearly the responsibilities of the Monitoring Group as stated in the covering letter.

- Participate actively in the nomination of Trustees
- Approve the nomination of Trustees
- Ensure the Trustees meet their constitutional commitments
- Monitor the Trustee's supervision of the standard-setting process and funding of the IASB
- Discuss with the Trustees issues of public interest such as the effects of proposed standards on the economy

The above points would then be developed in the MOU.

Section 19 would then re-focus on the ways and means of attaining these objectives (principle of periodic meetings, annual report...).

In a later phase, the MG working procedures will have to be clearly defined (paragraph 23 of the new constitution).

#### ***Question 4***

*Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group in the selection of Trustees? If so, what should be the role and composition of the Trustees Appointments Advisory Group ?*

The mission of the Trustee Appointments Advisory Group substantially duplicates one of the missions of the Monitoring Group which is to participate in the Trustees' selection process. Several institutions which are members of TAAG will be members of the Monitoring Group. It is therefore proposed to simplify the structure by eliminating TAAG.

#### ***Questions related to the IASB's composition***

#### ***Question 5***

*Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy ?*

#### ***& Question 6***

*Do you agree with the geographical formulation suggested by the Trustees ?*

There is justification for increasing the number of IASB board members with a view to ensuring the main continents are represented. However, we should not lose sight of the fact that the zones in which IFRS are the most applied should be sufficiently well represented to obtain the continuing support of stakeholders. A board with 16 members remains operational ; but a further increase could reduce its efficiency and make it more difficult to obtain the supermajority, a requirement which must be maintained as it contributes to overall coherence.

Moreover, it remains essential that selected members :

- Have a high level of technical competence to enable them to share and test their views effectively.
- Remain in professional practice, which pleads in favour of reducing the length of their mandate; the renewal of the board by fractions ensuring the overall cohesion.

#### ***Question 7***

*The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal ?*

This orientation does not affect the overall balance of the board (an additional part-time member for two additional board members) and helps to improve the flexibility and efficiency of the standard-setting process; it can therefore be supported.

Particular attention should be paid in applying point 7 (Integrity) of the annex to the IASCF Constitution with respect to membership criteria; this attention should be maintained throughout the members' mandate and could be a point for discussion between the Monitoring Group and the Trustees.

#### ***Other comments***

The current review of the IASCF Constitution will also provide an opportunity to assess overall governance.