



The voice of banking  
& financial services

Tamara Oyre  
Assistant Corporate Secretary  
IASB Foundation  
30 Cannon Street  
London  
EC4M 6XH  
[constitutionreviw@iasb.org](mailto:constitutionreviw@iasb.org)

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Dear Ms Oyre,

**Review of the constitution: Public Accountability and the Composition of the IASB Proposals for Change**

This is the British Bankers' Association's response to the request for comments on the above proposals. The BBA is the leading association for the UK banking and financial services sector, speaking for 223 banking members from 60 countries on the full range of UK or international banking issues and engaging with 37 associated professional firms. Collectively providing the full range of services, our member banks make up the world's largest international banking centre, operating some 150 million accounts and contributing £50 billion annually to the UK economy.

We welcome the publication of the Foundation's proposals. The importance and stature of International Financial Reporting Standards has grown immeasurably since the previous review of the constitution was concluded in June 2005: IFRS has become firmly entrenched within Europe, convergence between IFRS and US GAAP continues apace and has led to the abolition of the requirement for foreign private issuers in the US who prepare their financial statements in accordance with IFRS to reconcile them to US GAAP, the prospect of domestic US firms utilising IFRS grows nearer as other major economies are at various stages in their recognition of IFRS. We therefore welcome the Trustee's recognition that the governance structures and due process arrangements which were fit for a body producing financial reporting standards of an optional nature are not fit for a body producing standards of fundamental importance to the health of global capital and financial markets.

Conceptually the governance and due process arrangements for the IASB have always appeared to be a model of their type. Unfortunately, for too many constituents, the reality is that they have failed to deliver the open and transparent standard setting process necessary to engender trust and confidence. Too often the dialogue between the Board and its constituents has fallen short and there has been a disconnect between the Board's output and the needs of preparers and users.

We would highlight the recent publication of the discussion paper titled 'Reducing Complexity in the Measurement of Financial Instruments', as an example of where the Board's output has fallen short of what its constituents expect. The measurement of financial instruments is a highly significant issue for the banking industry and one where, through proper consultation and engagement with constituents, the Board could deliver substantial improvements. However, the paper offers little more than a choice between full fair value in the short term or in the long term. Whilst we can accept that full fair value could lead to a reduction in complexity in the sense that all accounting standards would show one measurement approach, this is tangential to the issue of whether or not accounting on this basis reduces complexity for management and users in understanding performance concerning

British Bankers' Association  
Pinners Hall  
105-108 Old Broad Street  
London  
EC2N 1EX

T +44 (0)20 7216 8800  
F +44 (0)20 7216 8811  
E [info@bba.org.uk](mailto:info@bba.org.uk)  
[www.bba.org.uk](http://www.bba.org.uk)



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instruments viewed as generating value on a different basis. We sincerely doubt that the paper would have been produced in its current form had the Board engaged fully with constituents as it fails to consider adequately constituents' immediate priority of reducing complexity in the current measurement requirements on practical terms.

We therefore welcome the enhancements envisaged by the consultation paper and believe that they will go some way towards increasing trust in the standard setting process and will improve the quality of IFRSs going forward. We support the decision to bring the constitution review forward and to fast track the implementation of the proposed Monitoring Group and the changes in the composition of the Board to early 2009. However, these changes must only be the start of the constitutional review. It is imperative that the Trustees take forward the development of the areas of the constitution not covered by the current proposals.

Equally important will be the implementation of the proposals. As noted above, we share the view of other constituents that in the past the reality of the IASB's governance and due process arrangements has fallen short of the practices envisaged by the constitution. We hope that the new Monitoring Group will resolve this and ensure the constitution is robustly implemented. In our view, proper implementation will not only resolve concerns about accountability but will also encourage those countries currently reluctant to adopt IFRS to do so and will reduce the possibility of national authorities adapting IFRS or only partially adopting standards. It is also important for the Monitoring Group to guard against one country or region dominating the IASB's agenda. IFRS must remain International and independent of local interests. Only if these criteria are achieved will the full benefits of IFRS be realised.

Below we respond to the questions raised in the proposal document.

### ***The Monitoring Group***

#### **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?**

We believe the creation of a Monitoring Group to be essential to the creditability of IFRS. As the consultation paper notes, the IASB is unlike other standard setters in that it has no authority to impose its standards and is not composed of representatives of national bodies mandated to perform tasks by Governments or their agents. The accountability of the Board and the legitimacy of the standards it promulgates are therefore open to question. A Monitoring Group comprising representatives of public authorities and international organisations charged by national authorities with the task of ensuring the efficient functioning of international capital markets will deliver the creditability and accountability the IASB needs. At the same time we agree a Monitoring Group will preserve the operational independence necessary for the satisfactory development of IFRSs which balance the needs of all stakeholders.

We believe the consultation paper finds the right answer to the question of how the relationship between the Monitoring Group and the Board of Trustees should be established. We encourage the Trustees to take the first step which is the recognition of the Monitoring Group in the IASC's constitution. Once established, the Monitoring Group should develop a Memorandum of Understanding setting out the terms of reference of the relationship between the new group and the Trustees. We concur that this should be subject to public consultation before it is adopted.

We agree that the Monitoring Group should be mandated to monitor and review the work of the Trustees, particularly ensuring the selection of Trustees is conducted in an open and transparent manner. There is also a role for the Monitoring Group to recommend candidates. It is right that the Monitoring Group should establish its own operating procedures.

#### **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.**

We agree that the membership of the Monitoring Group should, at the outset, include those listed in paragraph 20 of the discussion paper.

We also suggest that the chairman of the Basel Committee should be considered for membership. It is right that membership of the Monitoring Group should be reassessed in the future to ensure that it adequately represents the stock of jurisdictions with an interest in the development of IFRS.

- 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 IFRSs 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?**

This is an important point. Although we wish to see greater public accountability, we are also keenly aware of the need to maintain the operational independence of the IASB. In our view, Section 19 maintains this balance.

- 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?**

Once the Monitoring Group is operational we believe the Trustee Appointments Advisory Group will be surplus to requirements. We suggest that the Monitoring Group should work with the Trustees to develop a new nomination process for Trustees.

#### ***The IASB's composition***

- 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?**

We agree that the increasing number of jurisdictions which permit the use of IFRS necessitates the expansion of the Board and concur with the rationale for expansion cited in paragraph 25.

We note, however, that the consultation paper does not contain a justification for expanding the Board to 16 members. Although we recognise the need for the Board to remain workable, we question whether 16 members are sufficient to permit the Board to engage appropriately with its large number of constituents. We note, for instance, that the International Auditing and Assurance Standards Board currently has 18 members. We would welcome further consideration of this point.

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

We believe that technical expertise must remain the most important criterion in the selection of Board members. We do agree, however, that a geographical component to the Board's composition is desirable. Notwithstanding our comments above, we believe the formulation proposed in paragraph 26 to be appropriate. We concur with the views in paragraph 28 that it is important that geographical diversity should not lead Board members to act as if they represent a geographical constituency. Equally it is important to ensure that no one region or country dominates activities.

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

We agree that in principle the Board should remain largely full time; this will preserve its independence and ensure that it functions efficiently. Nevertheless, we strongly support the participation of part-time members, in our view they bring valuable practical experience and up-to-date knowledge to discussions.

Part-time membership of the Board does, however, require a considerable time commitment. We suggest that there might be scope for appointing part-time members with particular expertise to join the Board for the life of a particular project. This would allow the Board to benefit from expertises it might otherwise lack and increase the pool of experts willing to contemplate part-time membership.

Please do not hesitate to contact us should you have any questions on the points raised in this response.

Yours sincerely,



**Paul Chisnall**  
*Executive Director*

Direct Line: 020 7216 8865  
E-mail: paul.chisnall@bba.org.uk