



# Capital Research and Management<sup>SM</sup>

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July 2, 2008

Constitution Review Committee  
c/o Thomas Seidenstein,  
Director of Operations  
International Accounting Standards Board  
30 Cannon Street  
EC4M 6XM London United Kingdom

Re: International Accounting Standards Committee Foundation  
- Constitution Review, Part 1

Dear Mr. Seidenstein,

The affiliates of Capital Research & Management are global investment managers who, combined, actively manage well over \$1 trillion of assets. Our investment process and philosophy are based on bottoms-up company research; accordingly, we are very active users of financial statements worldwide.

We are writing you to convey our strong support for ensuring the independence of the International Accounting Standards Board as an essential part of an effective standard-setting process. To that end, we believe that the IASB and IASCF should actively seek out, and have as voting IASB members, several people from the investor community with significant experience using financial statements in the research process. We also believe that the trustees of the IASB should include significant representation from among such investors. Simply stated, investor participation is critical to developing high-quality, transparent, relevant, consistent and comparable accounting standards.

The independence of the IASB from political or special interest pressures is paramount. To that end, the proposed establishment of a Monitoring Group raises the following questions:

1. Will the IASB Board, in fact and appearance, have the final say in what matters are added to its agenda and what conclusions are reached on accounting standards?

2. What will be the role of the Monitoring Group versus the role of the trustees of the IASB when it comes to oversight of the Board? Does the ultimate oversight rest with the Trustees or Monitoring Group? Who will oversee the budgeting process of the IASB? Will the Group be able to exert pressure on the IASB to modify its budget to fit the demands of the Monitoring Group?
3. What protections will be put in place to ensure the IASB is able to make appropriate decisions notwithstanding any external pressures, such as those previously exerted on the IASB regarding its standard on accounting for derivatives or on the FASB with respect to its standard for accounting for stock options?
4. What ensures the Monitoring Group will be open to and carefully consider input from investors?

Our understanding is that the Monitoring Group would approve the selection of Trustees, provide input on the nomination process, and ensure the Trustees are fulfilling the requirements set out in the Constitution, importantly without altering in any way the independent standard-setting function. We appreciate that the Group's objective would be to promote public accountability especially to investors globally, rather than to influence the IASB's technical agenda or ultimately its accounting standards. Yet it is not clear to us how the Monitoring Group's control over the nominating process would not at least indirectly give it influence and control over the ultimate accounting standards.

We do not support the proposal to expand IASB's membership to sixteen members. Fourteen, or twelve, members would seem more than sufficient for sharing the work load that comes with global standard setting, and provide a sufficient number of IFRS ambassadors to communicate across the world on behalf of the Board. We fear that a sixteen-member board could slow the pace of the standard-setting process and increase the likelihood of ill-advised political compromises. Alternatively, the perceived need to accommodate geographic needs and preferences could be accomplished through the comment process and by outreach by the Board to various constituencies.

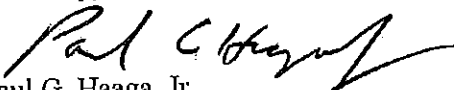
We also are concerned that imposition of a geographical component could compromise the Board's objective of attracting the wisest and most technically competent members from each of the user, auditor, preparer and academic communities. Individual talent and a mix of essential background characteristics should be the only criteria for selecting Board members. We also are concerned that strict geographical diversity could create a "representative" board reflecting narrower interests and could enhance the likelihood of political interference and thereby compromise the pursuit of high-quality independent accounting standards on behalf of all users. Former FASB member Katherine Schipper wrote the following salient words, in her letter dated January 19, 1998 and addressed to Stig Enevoldsen with Deloitte & Touche Tohmatsu International, when she was a professor at The University of Chicago:

"It is possible that the proposal to draw the Standards Committee from national standard setters is intended to provide political representative legitimacy... The *cost* of political representative legitimacy is of course a potential sacrifice of expertise and a nearly certain sacrifice of independence. Political representatives are chosen to represent a constituency [an interest group] and not because they are independent experts. Thus, political representative legitimacy offers a "seat at the table" to whatever interest groups are chosen for inclusion in the decision process--and I certainly don't want to diminish the value of this structure--but the benefits come at a particular cost that I view as quite high in the case of financial reporting standard setting... I do not think the independent expert model can be productively combined with political oversight in the case of financial reporting standard setting."

Finally, we would prefer there not be part-time Board members. While we appreciate that this would broaden the pool of talent available to serve, we think any such advantage could be more than offset by the reduction in individual members' effectiveness. This is particularly so if you follow our recommendation not to increase the IASB size but even reduce it to twelve members. Ensuring that all board members are full time would result in each member carrying a more equivalent work load—including public speaking engagements and interactions with constituents—while ensuring that they maintain their independence and technical expertise and maximize their contributions to the important work of the Board.

Thank you for considering our views.

Sincerely,



Paul G. Haaga, Jr.

cc    Gerrit Zalm, Chairman, IASCF  
      Sir David Tweedie, Chairman, IASB  
      Antonio Vegezzi, Trustee, IASCF