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Mr Gerritt Zalm  
Chairman of the Trustees  
IASB Foundation  
30 Cannon Street  
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United Kingdom

30<sup>th</sup> November 2009

**Email:** [Constitutionreview@iasb.org](mailto:Constitutionreview@iasb.org)

Dear Mr Zalm

**Part 2 of the constitution review: proposals for enhanced public accountability**

The International Banking Federation (IBFed) welcomes the opportunity to comment further on proposals to enhance the governance arrangements and public accountability of the IASC Foundation and the IASB.

The members of IBFed are the banking associations of America, Australia, Canada, China, India, Japan, South Africa and the European Banking Federation. Our members represent every major financial centre and sit in every time zone. This worldwide reach enables the Federation to function as a key international forum for addressing legislative, regulatory and other issues of interest to the global banking industry.

The need to enhance the governance arrangements for the IASB in many ways are borne out by the experience of the past 18 months and the organisation's ability to revise international accounting standards in light of the global financial crisis as part of the action plan now being progressed under the aegis of the G20.

As the events of the past two years have shown, the issues facing organisations can change very dramatically in a short period of time. For the IASB this has meant getting to grips with the task of having to review some of its most complex standards in a relatively short period of time. This

has involved a re-prioritisation of the organisation's work programme and more active engagement with inter-governmental and regulatory bodies than previously may have been the case. The agenda setting process and dialogue with stakeholders has been core to this.

We believe that the IASB will benefit from a more deliberate and interactive process in respect of setting its agenda with intergovernmental and regulatory bodies and, more generally, other user groups including preparers. This should enable the Board not only to achieve a higher degree of consensus on its broad strategic agenda, but also enable a more timely discussion about priorities over the short-to-medium term and the need for shifts in the use of resource. This is essential if the IASB is to provide itself with the flexibility needed to enable it to cope with the demands placed on an internationally recognised standard setter.

The banking industry is global in nature and its regulatory expectations are set not only by the IASB, but the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and a variety of other international and regional authorities. This creates a complex web of statutory and regulatory requirements and it is essential that different parts of the regulatory framework join up in a coherent manner. While this task – as far as the financial crisis is concerned – has been charged by G20 governments to the Financial Stability Board it would seem self-evident to us that the process for setting international financial reporting standards can only be strengthened by ensuring a more integrated approach with other governmental and regulatory initiatives. While we understand that there are concerns about the need to maintain the independence of the accounting standard-setting process, we believe that greater interaction with others will enhance the ability of the IASB to meet the challenges which it faces. We see no inherent reason why closer engagement with others need entail the compromising of the objectives of financial reporting.

The discussion document makes proposals concerning an accelerated due process to permit the IASB to consult over a shorter time period in exceptional circumstances. The Trustees believe that there should always be some form of public consultation before financial reporting standards are revised and that the existing provisions allowing a 30-day accelerated period should usually be sufficient. We agree with this but also concur that the constitution should provide for a shorter period of consultation when major unforeseen developments arise.

These and the other proposed changes to the constitution identified during the second part of the IASC Foundation's constitutional review are commented upon further in the attached appendix addressing the specific questions raised in the September discussion document.

In previous correspondence we have underlined the importance of field testing and the completion of cost/benefit analyses of standards. While this may not be a matter for the

constitution, we would make the point that we see both as benefiting from Trustee oversight. At this point in time, it is clear that a disciplined analysis is particularly needed in respect of the proposed use of the expected cash flow approach within the exposure draft 'Financial Instruments: Amortised Cost and Impairment'.

In closing, we would add that any constitution or governance structure is only as good as the use to which they are put. They cannot in themselves determine that an organisation will be regarded as authoritative, well informed and appropriately motivated. These are the qualities to which the Foundation and Board should aspire and in order to achieve this they need to ensure that they not only engage in dialogue with constituents but listen and act upon their needs. The outcome will be standards that are both principles-based and capable of practical implementation and this in turn will raise the quality of financial reporting.

This letter is copied to Tamara Oyre, Assistant Corporate Secretary, IASC Foundation.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nancy Hughes Anthony'.

**Mrs Nancy Hughes Anthony**

**Chairman, IBFed**

A handwritten signature in black ink, appearing to read 'Sally J Scutt'.

**Mrs Sally J Scutt**

**Managing Director, IBFed**

## **Appendix 1: specific questions on the Trustee's proposals for change following the December 2008 consultation**

### **Confusion associated with the existing names within the IASC Foundation**

*Question 1: The Trustees seek views on the proposal to change the name of the organisation to the 'International Financial Reporting Standards Foundations', which will be abbreviated to 'IFRS Foundation'. The Trustees also seek views on the proposal to mirror this change by renaming the International Accounting Standards Board, which will be abbreviated to 'IFRS Board'. Do you support this name change? Is there any reason why this change of name might be inappropriate?*

We support the name change and believe that it would signal the Foundation and Board moving into a new stage of their development. The only grounds that we could see for not proceeding as proposed would be if it caused any legal difficulty for regional or national authorities that will in the first instance have given recognition to the IASB and IASB.

*Question 2: The Trustees seek views on the proposals to replace all reference to 'accounting standards' with 'financial reporting standards' throughout the Constitution. This would accord with the name change of the Foundation, the Board and the formal standards developed by the IASB-International Financial Reporting Standards (IFRSs). Do you support this change?*

This would seem a natural development.

### **The need to clarify the objectives of the organisation in the light of global IFRS adoption**

*Question 3: The Trustees seek views on their proposals to change section 2 [as provided in discussion document]. Do you support the changes aimed at clarity?*

We agree that the objective of the IFRS Foundation should be to develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards. We see the inclusion of "accepted" as reinforcing the proposals for engaging more with stakeholders including those which have a formal position in the determination of the acceptability or otherwise of standards.

We also agree with the change in order of taking into account the needs of emerging economies and the needs of SMEs. This is in keeping with the primary focus being on participants in the world's capital markets.

***Question 4: The Trustees seek views on the proposal to amend section 3 of the Constitution [as provided in the discussion document]. Do you support this clarifying amendment?***

We are already on record as supporting the establishment of the Monitoring Board as a means of establishing a formal reporting link to official organisations.

#### **Recognising the participation of Trustees from Africa and South America**

***Question 5: The Trustees seek views on the proposal to amend section 6 of the Constitution [as provided in the discussion document] to include one Trustee from each of Africa and South America: Do you support the specific recognition of Africa and South America?***

In view of the growing regional adoption of IFRS it is only right that the constitution provide specifically for representation within the Trustees from Africa and South America.

#### **A provision for two vice-chairmen of the Trustees**

***Question 6: The Trustees seek views on the proposal to amend section 10 of the Constitution as follows to allow up to two Trustees to be appointed as vice-chairman of the Trustees. Do you support the constitutional language providing for up to two Vice-Chairmen?***

This proposal will help make the Trustee Board more operational and is supported.

#### **Continued emphasis on effective Trustee oversight**

***Question 7: The Trustees seek views on the proposal to make no specific amendments to sections 13 and 15, but to address the valid and important concerns raised by commentators by way of enhanced accountability, consultation, reporting and ongoing internal due process improvements.***

We are pleased to see that the Trustees view concerns about the effectiveness of Trustee oversight as valid and important and agree that these do not require a change in the constitution but can best be met through better use of the existing mechanisms available.

#### **Expanding the IASB's liaison with other organisations**

***Question 8: Section 28 would be amended [as provided in the discussion paper]. Do you support the changes aimed at encouraging liaison with a broad range of official organisations with an interest in accounting standard-setting?***

We regard it as vital for the IASB to work more closely with other inter-governmental and regulatory authorities, particularly in respect of the financial crisis action plan being pursued by the Financial Stability Board under the aegis of the G20.

### **The possibility of two Vice-Chairmen for the IFRS Board**

*Question 9: The Trustees seek views on the proposal to amend section 30 of the Constitution as follows to permit the appointment of up to two Board Members to act as vice chairmen of the IASB.*

This proposal will help make the Board more operational and is supported.

### **The length of IFRS Board members' terms**

*Question 10: The Trustees seek on the proposal to amend section 31 to allow for altered terms of appointment for IASB members appointed after 2 July 2009. The proposed amendment is to allow for Board members to be appointed initially for a term of five years, with the option for renewal for a further three-year term. This will not apply to the Chairman and Vice-Chairman, who may be appointed for a second five-year term. The Chairman or Vice-Chairman may not serve for longer than ten consecutive years. The proposed amendments to section 31 are [as provided in the discussion paper]. Do you support the change in proposed term lengths?*

These proposals will help make the Board more operational and are supported.

### **Accelerated due process**

*Question 11: The Trustees seek views on the proposal to insert section 37 (to become section 38) of the Constitution an additional subsection as follows to allow the Trustees, in exceptional circumstances, to authorise a shorter due date process period. Authority would be given only after the IASB had made a formal request. The due process periods could be reduced but never dispensed with completely.*

We agree with the introduction of an accelerated due process on the basis proposed.

### **Encouraging greater input to the IASB's agenda-setting process**

*Question 12: The Trustees seek views on the proposal to amend section 37(d) (to become section 38) of the Constitution as follows expressly provide that the IASB must consult the Trustees and the SAC when developing its technical agenda.*

We view this as an essential component in a) the Trustees developing a more hands-on approach to their oversight function and b) the IASB adopting a closer relationship with stakeholders.

We further agree that the operation of the SAC and its effectiveness in achieving its objectives should be carefully monitored and note that the Trustees are willing to revisit the role and effectiveness of the SAC in the next constitutional review should this prove necessary.

### **Review of the Standards Advisory Council**

***Question 13: Trustees seek views on the proposal to make no amendment to sections 44 and 45 (renumbered as 45 and 46), which are the provisions relating to the SAC, at this time.***

While other provisions of the constitution in respect of the Standards Advisory Council may not require amendment, we would underline the need for the IASB to improve its use of the SAC as a sounding board on key issues, including their prioritisation.

### **Further clarifying amendments and improvements**

***Question 14: The Trustees seek views on the proposal to amend section 48 by removing the specific staff titles and replacing it with the term ‘the senior staff management team’. Accordingly section 49 should be deleted. The Trustees also seek comment on the proposal to update the Constitution by removing all historical references that relate to when the organisation was established in 2001.***

This would seem unobjectionable.