

The Director General delegate

Paris, March 30th, 2009

FBF Response to the Review of the constitution: identifying issues for Part 2 of the Review

Dear Ms Oyre,

The French Banking Federation (FBF) is pleased to have the opportunity to comment on the part 2 of the IASCF's constitutional review.

The French Banking Federation (FBF) is the professional body representing over 500 commercial, cooperative and mutual banks operating in France. It includes both French and foreign-based organizations.

First of all, we would like to highlight our support to some initiatives of the second part of the review of the constitution such as designing standards under a principles-based approach, establishing a broad-based funding system, appointing Trustees to a largely geographical distribution.

We welcome also the recent enhancements of the IASB's due-process as we feel that often in the past few years, comments and concerns made by constituents were not taken into account when the final standards were issued or developed. IAS 37 is an example of such situation.

However we believe that emphasis should be put on the following points:

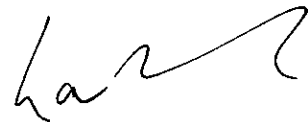
- IFRS standards should not be developed in an only investor-based approach but they should take into account a wide scope of stakeholders.
- An interactive dialogue with constituents regarding the agenda should be developed. We believe that this appropriate due consultative process will not affect the independency of the IASB as setting contents of the standards will still remain under the responsibility of the IASB Board.
- An appropriate relationship should be intensified with other organisations that establish standards and should be extended to organisations interested in financial reporting.
- A fast-track procedure should be adopted in exceptional circumstances and acted in the IASB consultative process.

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- The Monitoring Group could see his role enhanced by being in charge of reviewing in particular:
 - the conceptual framework which must, when adopted, be compelling for the development of all the standards,
 - the application of current and future standards and their impact on financial stability,
 - the feedback of the constituent's comments and the drawing up of the agenda.

Our answers to the review of the constitution are detailed in the Appendix to this letter. We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Lauzun', with a stylized, flowing script.

Pierre de Lauzun

Appendix

Objectives of the organisation

1. The constitution defines the organisation's primary objective in the following manner: to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions.

In fulfilling that objective, the organisation is: to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies.

Does the emphasis on helping 'participants in the world's capital markets and other users make economic decisions', with consideration of 'the special needs of small and medium-sized entities and emerging economies', remain appropriate?

We agree to put the emphasis on the capital markets participants, which must not be reduced only to equity's investors. However, regarding the place taken by the IAS standards within the international regulatory framework, we believe that investors cannot be seen as the only users of financial reporting and that the reference should be extended to other stakeholders such as regulatory authorities, intergovernmental agencies, lenders or other trade creditors.

We support the IASB consideration on the needs of emerging economies. However, concerning the small and medium-sized entities, we believe that it is more appropriate to consider their needs of convergence towards IFRS at a national level.

2. In the opinion of the Trustees, the commitment to drafting standards based upon clear principles remains vitally important and should be enshrined in the Constitution. Should the Constitution make specific reference to the emphasis on a principles-based approach?

The FBF agrees to include in the constitution a reference to design standards under a principles-based approach. Thus, a balance should be found between principles and technical provisions to avoid extensive application guidance and interpretations, or, alternatively, a wide spectrum of divergent practices if such interpretations are lacking.

3. The Constitution and the IASB's *Framework* place priority on developing financial reporting standards for listed companies. During the previous review of the Constitution some commentators recommended that the IASB should develop financial reporting standards for not-for-profit entities and the public sector. The Trustees and the IASB have limited their focus primarily to financial reporting by private sector companies, partly because of the need to set clear priorities in the early years of the organisation. The Trustees would appreciate views on this point and indeed whether the IASB should extend its remit beyond the current focus of the organisation.

We do not believe that the IASB should develop now financial reporting standards for not-for-profit entities and the public sector. In our view, such project is IASB's staff consuming and therefore, IASB could not afford devote time to this project regarding the other accounting current priorities. This should be left to national standard-setters or other international bodies who could appreciate the need to converge towards IFRS standards.

- 4. There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognises the need to have close collaboration with accounting standard-setting bodies. Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives? If so, should there be any defined limitations?**

Because of the importance of the IFRS standards within the financial community, we believe that the IASCF should develop closer relationships with other organisations than standard setters. The IASCF could collaborate with relevant inter-governmental and regulatory authorities or auditors and preparers organisations.

The principle could be enshrined in the IASCF constitution without any defined limitations leaving the development of the relationship to a case by case relevant approach and keeping in mind the need to maintain independence in the standard setting process.

Governance of the organisation

- 5. The first part of the review of the constitution proposed the establishment of a formal link to a Monitoring Group. Under this arrangement, the governance of the organisation would still primarily rest with the Trustees. Although the first part of the review has not yet been completed, the Trustees would welcome views on whether the language of Section 3 should be modified to reflect more accurately the creation of the Monitoring Group and its proposed role.**

We are in view of strengthening the oversight process within the international standard setter organisation. We believe that the Monitoring Group should have an essential role in monitoring the standard setting process of the Board. He would be specifically charged with considering the effects of standards changes on the accuracy and transparency of financial reporting, as well as the extent to which accounting standards create systemic risk exposure for global financial markets. He should be able to influence the agenda of the IASB by adding new items or withdrawing projects according to responses received from the constituents. He will also have to check the compliance of the new standards with the conceptual framework.

Trustees

- 6. The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?**

The FBF agrees with the current distribution of the Trustees.

7. **Sections 13 and 15 set out the responsibilities of the Trustees. The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation – the fundamental operating principle of the organisation. In addition to these constitutional provisions, the Trustees have taken steps to enhance their oversight function over the IASB and other IASC Foundation activities. The Trustees would welcome comments on Sections 13 to 15, and more generally on the effectiveness of their oversight activities.**

We agree with the responsibilities set out in sections 13 and 15 and would like to add the reviewing of the agenda as explained in question 9.

We would also like to focus on the fact that the responsibilities of the Trustees should be exercised in relation with the oversight body as described in our response to question 5.

8. **The Trustees are responsible for ensuring the financing of the IASC Foundation and the IASB. Since the completion of the previous review of the Constitution, the Trustees have made progress towards the establishment of a broad-based funding system that helps to ensure the independence and sustainability of the standard-setting process.**

However, the Trustees have no authority to impose a funding system on users of IFRSs. The Trustees would welcome comments on the progress and the future of the organisation's financing.

The IASCF and the IASB need to rely on a stable funding mechanism to ensure the IASB to function independently. The FBF encourages the Trustees to pursue their work undertaken in the first part of the review to establish a broad-based funding regime. We believe that it should call for a levy contribution within an enlarged scope of contributors (listed companies, governmental agencies and business associations) under the responsibility of public authorities.

International Accounting Standards Board

9. **Commentators have raised issues related to the IASB's agenda-setting process. The Constitution gives the IASB 'full discretion in developing and pursuing its technical agenda'. The Trustees have regularly reaffirmed that position as an essential element of preserving the independence of the standard-setting process. However, they would welcome views on the IASB's agenda-setting process and would appreciate it if, in setting out views, respondents would discuss any potential impact on the IASB's independence.**

The FBF is in favour of giving to the constituents the opportunity to debate on the priorities and timescales of the IASB's work. It should be part of a full due process of an annual consultation on its agenda. This constructive dialogue would allow highlighting the needs of constituents and avoiding criticism that could be made on the relevance of the review of standards that do not cause any significant concerns in practice.

We do not believe that such a due-process applied to the agenda could have a negative impact on the IASB's independence. The standard setting process will still assure the IASB the ability to design standards and to take the appropriate decisions on the contents of these standards after taking into consideration fairly the constituent's responses.

- 10. The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the *IASB Due Process Handbook*. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the existing procedures require too much time, what part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the *IASB Due Process Handbook*.**

The FBF has no specific comments on the current due process as it is designed in the *IASB Due Process Handbook*. We also welcome the recent enhancements made in the IASB's due process particularly feedback statements and effect analyses. In our view, re-exposure of draft proposals should be viewed as an opportunity rather than a burden as it is a way to focus and precise thinks that might not have been clear and subject to discussions.

However, our concerns are rather focussed on the way that the existing procedures are applied. Even if the due process is being followed in the form, we feel that it has not been achieved in substance in some cases. Comments were not taken into account when the final standards were issued. This leads us to be in favour of an oversight mechanism of this aspect of the IASB's work.

- 11. Should a separate 'fast track' procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a 'fast track' procedure?**

We believe that the IASB should complete its consultative due process with a fast-track procedure that requires a quick response from the constituents in certain circumstances. This fast-track procedure should be followed when exceptional circumstances modify substantially usual conditions for applying accounting standards or when the issues concerned are of extraordinary significance.

The principle of a separate fast-track procedure could be set out in the constitution whereas the use of this procedure could be required by the Trustees on a case by case basis in the light of urgent issues or circumstances.

Standards Advisory Council

- 12. Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?**

We have no specific comments to make on the SAC.

- 13. Attached to this document are the terms of reference for the SAC, which describe the procedures in greater detail. Are there elements of the terms of reference that should be changed?**

We have no specific comments to make on the SAC.

Other issues

14. Should the Trustees consider any other issues as part of this stage of their review of the Constitution?

Broadly speaking, we believe that Trustees should take into consideration economic and international environment and other public authorities concerns when establishing the IASB's priorities.