



The Corporate Reporting Users' Forum

Tamara Oyre
Assistant Corporate Secretary
IASB Foundation
by email: constitutionreview@iasb.org

19th September 2008

Dear Ms Oyre

We are pleased to have the opportunity to comment on the IASC Foundation's proposals for changes to its own constitution and that of the International Accounting Standards Board.

Whilst we recognize the political necessity for some form of monitoring arrangement we are concerned that the Monitoring Group's proposed remit goes too far, creating the risk that politics outweigh technical merit in the standard setting process. This would have negative implications for user confidence in the process and its outputs.

The IASB's agenda-setting process

Before dealing with Phase 1 of this constitutional review, we wanted to make some comments on Phase 2. We believe that the Trustees have played a role in assisting the IASB to be more responsive in its consultation processes; we have certainly noticed an improvement over the time in which the CRUF has been attempting to provide users' input into the process. We are grateful to the Trustees for their efforts in this regard.

However, one area which continues to raise some concerns for us is the setting of the IASB's agenda. We believe that the IASB should focus on needs, on those areas where current standards are 'broken'. Currently the agenda includes a number of issues which we do not believe need to be addressed with urgency and yet thus far we have been unable to encourage the Board to address some issues which we believe do need urgent attention.

Just as the Trustees with limited intervention have been helpful in assisting the IASB to be more responsive in its consultation process, we believe that the Board's agenda-setting process could be assisted by some greater IASC Foundation involvement. We will make some more substantive proposals in this regard as part of Phase 2 of this constitutional review.



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Questions related to the Monitoring Group

We continue to believe – as the IASC Foundation itself lays out – that international accounting standards should be set by a highly professional, independent body that is appropriately protected from particular national, sectoral or special interest pleading. We believe that great care therefore needs to be exercised in establishing a Monitoring Group.

First, the role of the Monitoring Group needs to be clearly limited. Users will only have confidence in reporting which is based on the decisions of a body which is professional and genuinely independent, and protected from sectional interests. Should the process of standard-setting become further politicised, there is a risk that user confidence would be eroded and the effective functioning of the capital markets impaired. We therefore strongly believe that the role of the Monitoring Group must be strictly limited so that it has a role in monitoring the working of the IASC Foundation, not in overseeing the work of the IASB itself. We are concerned that the current proposals risk overstepping this mark.

Second, it should be noted that the proposed Monitoring Group in certain circumstances may be liable to special interest pleading. Given that some members of the Monitoring Group will also have prudential and other regulatory responsibilities, it is essential that the Monitoring Group is not perceived as exercising undue influence in areas where there may be the potential for conflicts of interest between regulators and other users of accounts.

Q1. 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 acknowledge the political necessity that the IASC Foundation faces in this regard. We are content to support the establishment of a Monitoring Group, provided that the scope of its responsibilities is strictly delimited and there is no risk of mission-creep in its operation. The Monitoring Group will have significant influence over the IASC Foundation and the IASB through a role in the appointment of new trustees. The role of the Monitoring Group should not go beyond this significant influence into interference in the operational work of the IASB.



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Q2. While recognizing that the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group's membership and whether other organizations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.

Provided that the role of the Monitoring Group is appropriately limited as discussed below, we do not share the views expressed by some users that the Monitoring Group should include user representatives. This seems to us to misunderstand the role of the Monitoring Group and the pressures which are leading to its creation. Rather, we would be content with the proposed composition of the Monitoring Group, particularly the proposal that its members be individuals of sufficient standing to give the Monitoring Group an appropriate status.

However, we do strongly believe that there needs to be a greater representation of users in the standard-setting process itself, as members of the IASB, as members of the Standards Advisory Council and as IASC Foundation trustees, as well as through the public consultation processes. In particular, these consultation processes need to ensure that users' views are more fully integrated into the agenda-setting process of the IASB; at present users tend to feel that they are presented with thinking at a relatively late stage. We will make more detailed proposals on this issue in our comments as part of Phase 2 of this constitutional review.

We would note that the IASB and the IASC Foundation will most successfully defeat arguments that they are not publicly accountable by ensuring that they are appropriately responsive to the reasoned arguments put forward by the users of accounts on whose behalf they are operating and developing standards.

Q3. Does the formulation of the Monitoring Group's mandate and the Trustees' reporting responsibilities, as described in the proposed Section 19, appropriately promote that link [of public accountability], while maintaining the operational independence of the IASC Foundation and the IASB?

We are deeply concerned that section 19(c) goes beyond the aim of providing monitoring of the IASC Foundation while maintaining the independence of the IASB.

This section implies that the Monitoring Group will have the authority to request meetings with not only the chair of trustees but also with the chair of the IASB to discuss any area of the IASB's work; not only this, but the Monitoring Group will have the scope to refer issues for "timely consideration" by the IASB and these meetings will offer an opportunity to seek a resolution of those issues from the IASB chair.



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To our minds this goes far beyond the appropriate role for the Monitoring Group of monitoring the workings of the IASC Foundation. Rather, this risks intruding in the operations of the IASB, and is an invitation to mission creep. It risks the politicisation of the operations of the IASB and so undermining investor confidence in its activities.

We expect the IASC Foundation to provide an appropriate buffer to protect the IASB from political influence, and believe that this role is vital to maintain the confidence of users and also of the public markets as a whole.

We suggest that section 19(c) be amended so that it does not encourage the Monitoring Group to believe that its role goes beyond one of monitoring the functioning of the IASC Foundation.

Q4. 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?

No we do not think there would be a continued need for the Trustee Appointments Advisory Group. We believe that the Monitoring Group's role in this regard in effect replaces the role of the Trustee Appointments Advisory Group, which could therefore be disbanded.

Questions related to the IASB's composition.

Q5. 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 again recognise the political necessity which is driving the IASC Foundation to make these proposals. We believe that an expanded Board will be more challenging to chair, but we acknowledge the benefits which will come from board members being closer to users and preparers in the increasing numbers of countries which are applying IFRS.

We note that the expansion of the board does create greater challenges in reaching consensus on high quality accounting standards, and particularly for the chair. We would note that we would strongly oppose any expansion of the board beyond 16 members.



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Q6. Do you agree with the geographical formulation suggested by the Trustees?

We note that the Trustees wish retain the primacy of professional competence and practical experience in the requirements for IASB membership. We believe that this is vital, and are concerned that the Trustees ensure that a desire for geographic diversity does not in any way undermine this key factor.

The Board will be best able to produce standards which are appropriate internationally by having full input from skilled users and preparers. We would be extremely concerned if it appeared that appropriately qualified users or preparers who had made themselves available for appointment were not appointed to the board because they might not lead to the appropriate geographical diversity.

The geographical split should be no more than an aim; the primary consideration must be that members with the right skills are appointed. We believe that there are currently an appropriate number of members with preparer experience, but we would suggest that the board would be enhanced by the appointment of more individuals from the user community.

We would favour a change to the proposals to clarify that priority will be given to technical skill rather than geographical links.

Q7. The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?

We strongly support flexibility over part-time membership. We believe that scope for part-time membership is a key way to make Board membership an attractive and realistic proposition for users and preparers and to attract Board members with recent and relevant practical experience. We therefore believe that this is an important and useful recommendation.

The Trustees would welcome additional comments on the proposals.

We support the Trustees' efforts to ensure that the IASCF has the political buy-in that it needs to facilitate the successful adoption of IFRS around the world, but these efforts will only be successful if they are accompanied by clear division of responsibilities between the different parts of the structure.

Any evidence that the structural changes proposed could open the door for political considerations to outweigh technical merit in the standard setting process will reduce the credibility of IFRS in the eyes of users, and this in turn will reduce the potential benefits to developed and emerging economies that can come from having one widely accepted global set of financial reporting standards.



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About the Corporate Reporting Users' Forum (CRUF)

The CRUF was formed in 2005 as a discussion forum with the aim of helping its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of the International Accounting Standards Board.

The CRUF is a discussion forum. It does not seek to achieve consensus views, though at times its participants will agree to make joint representations to standard setters or to the media. The chairmanship of the CRUF rotates at each meeting and different individuals take leadership in discussions on different topics and in the initial drafting of representations.

CRUF participants include individuals from both buy and sell-side institutions, and from both equity and fixed income markets. The forum includes individuals with global or regional responsibilities and from around the world. The CRUF meets on a regular basis in London, Frankfurt and Sydney.

Its participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Notwithstanding this, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. The members of the Forum that have specifically endorsed this response are listed below.

Yours sincerely

Paul Lee
Director
Hermes Equity Ownership Services

Nick Anderson
Head of Research
Insight Investment



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Norbert Barth
Executive Director
Equity Research
WestLB AG

Anthony Corr
Principal, Executive Director
Continuum Capital

Karl Debenham
Senior Director, Global Valuation & Analytics
Merrill Lynch

Elizabeth Fernando
Head of European Equities
Universities Superannuation Scheme Ltd

Ralf Frank
Managing Director
CRUF Germany DVFA



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Peter Elwin
Head of Accounting & Valuation Research (Europe)
Cazenove Equities

Susannah Haan
Associate Director, Public Affairs
Fidelity International

Elmer Huh, CFA
Senior Vice President
Enterprise Valuation Group
Lehman Brothers

Kenneth Lee
Managing Director
Accounting and Valuation, Citi Investment Research
Citigroup Investment Research



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Jochen Mathée
Senior Portfolio Manager
Fortis Investments

Richard Mathieson
Senior Analyst
Exista UK

Gunnar Miller
Head of European Equity Research
Global Co-Head of Global Research
RCM Allianz Global Investors

Peter Reilly
European Equity Research
Head of Capital Goods
Deutsche Bank