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19 September 2008

Dear Ms Oyre,

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

We write in response to the above request for comments. The countries represented by IBFed collectively represent more than 18,000 banks with 275,000 branches, including over 800 of the world's top 1000 banks which alone manage worldwide assets in excess of \$68 trillion. The Federation represents every major financial centre and its members' activities take place in every time zone. This worldwide reach enables the Federation to function as the key international forum for addressing legislative, regulatory and other issues of interest to the global banking industry. The members of IBFed are the banking associations of American, Australian, Canada, China, India, Japan and the European Banking Federation. We welcome the opportunity to comment.

You will recall that we wrote to the Trustees in April to express our early support for the proposals to review the governance arrangements (a copy of which is included as an appendix to this response). We welcome this further development and urge that the proposed Monitoring Group be established expeditiously.

Before responding to the points raised in the consultation paper, we wish to underline our firm support for the principle of International Financial Reporting Standards. The potential benefits of a single framework of standards for financial reporting are well known, as is the banking industry's advocacy of them. The present Board and the Trustees have made significant progress in the period since 2001 towards fulfilling IFRSs potential. We commend this.

However, with success comes responsibility. With all the world's major financial centres utilising IFRS, the standards are now fundamentally important to international financial stability. It is therefore only to be expected that increasing levels of attention will be focused on the arrangements by which standards are developed. It would be wrong to accept that the original governance arrangements are fit or appropriate in this context.

It follows that a body which is unique in not having a direct line of accountability to public authorities is open to questions about its legitimacy. We therefore welcome the proposed amendment to the constitution to make provision for a Monitoring Group comprising representatives of public authorities and international organisations charged by national competent authorities with safe guarding the international financial system. A Monitoring Group has the potential to restore the trust of the IASB's constituents that the Board is working in an open and transparent manner and to deliver the legitimacy and accountability many see to be lacking in the current arrangements.

We also welcome the proposal to expand membership of the Board to 16 and to make an explicit reference in the constitution to the need for the Board to represent the geographical diversity. We support the proposed geographical division envisaged in paragraph 26 of the consultation paper. It is however right that when selecting Board members the emphasis should remain on professional competence and practical experience before the need for geographical diversity is considered.

We urge the Trustees to adopt the amendments with all due expediency.

Below we comment on the specific points raised in the discussion 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 do. Further, we believe that the creation of such a group is essential to the credibility of IFRS going forward.

We believe the proposal for a Monitoring Group strikes the right balance between providing accountability and preserving the IASB's necessary operational independence. We agree that the Memorandum of Understanding between the Monitoring Group and the Trustees should be subject to public consultation. 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 bodies and authorities listed in paragraph 20 should be included in the Monitoring Group. We would suggest that consideration should be given to also including the chair of the Basel Committee.

#### **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?**

We agree that this is an important point and believe that Section 19 successfully maintains the balance between the need for operational independence and greater accountability.

- 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?**

No, we do not think that there will be and suggest that the Trustee Appointments Advisory Group should be disbanded once the Monitoring Group becomes operational.

*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 do. It is essential for the IASB to strengthen its links with its constituents.

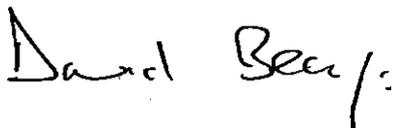
- 6. Do you agree with the geographical formulation suggested by the Trustees?**

We do. Although we mindful of the need for IASB members to refrain from acting as if they represent a geographical constituency.

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

Although we agree with the principle that the Board should remain largely full-time, we do believe that the participation of part-time members brings with it huge benefits in terms of real world expertise and practical knowledge. So, while we agree that there should be some degree of flexibility, we believe it would be unfortunate if the number of part-time members fell below three.

Yours sincerely,



David Bell  
Chairman



Sally Scutt  
Managing Director

Mr Gerritt Zalm  
Chairman of the Trustees  
IASC Foundation  
30 Cannon Street  
London  
EC4M 6XH

24<sup>th</sup> April 2008

Dear Mr Zalm

### **Enhanced Governance Arrangements and Public Accountability**

The International Banking Federation (IBFed) is the international association of the representative national banking associations of leading nations in the world financial system. The members of the IBFed include the American Bankers Association, the Australian Bankers Association, the Canadian Bankers Association, the European Banking Federation, and the Japanese Bankers Association. The objective of the IBFed is to increase the effectiveness of the financial services industry's response to multilateral and national government issues affecting their common interests in providing best services to banking customers.

The IBFed is a firm supporter of the development of the IASB and of International Financial Reporting Standards. To have reached a position in which IFRS is required or permitted in over 100 countries in a little over eight years is a remarkable achievement and a testament to the skill and dedication of the members of the IASB and its staff. Although the implementation of IFRS has by no means been easy, global financial markets and particularly the international banking community are now reaping the rewards.

The growing importance of IFRS to global capital markets, however, poses new challenges for the IASB and necessitates the evolution of its current governance arrangements so as to properly represent the increasingly diverse views of constituents. In this context, we welcome the IASC Foundation's proposals to enhance the IASB's governance arrangements and public accountability. As we understand them, the measures to be adopted include:

- The establishment of a formal reporting link to official organisations including securities regulators.

- The development of a multi-layered, multi-faceted approach to accountability beyond the formal link to official organisations involving the trustees intensifying and deepening their engagement with key stakeholder groups and the development of mechanisms for the Trustees to receive input outside formalised procedures.
- The creation of a mechanism for public input to the Trustees outside regularly scheduled meetings with specific stakeholder groups, including enhanced mechanisms for input from interested parties who wish to comment on the IASC Foundation's and the IASB's policies, processes and procedures.

The IBFed welcomes the proposals and considers that the shift in emphasis towards a more open and active approach to be entirely in keeping with the needs of the IASB if it is to continue to grow in recognition and stature.

We also consider that the development of a more open dialogue with key stakeholders on the underlying strategy to be followed by the IASB provides the best means of minimising the prospect of constituent jurisdictions determining that they should reject or only partially adopt a published IFRS. This in our view is the key to finding the means by which the IASB can publish standards confident in the knowledge that they will be adopted by individual jurisdictions.

In writing, we should like to underline the high significance for the banking industry of the recently published discussion paper on financial instruments. It is vitally important that the current level of complexity in the measurement of financial instruments is reduced and that any proposals are capable of application in the real world. We fear that the preference for full fair value as set out in the discussion paper fails both these tests. While we can see that the full fair value proposal may superficially reduce accounting standard complexity, in the sense that the relevant accounting standards can show a single approach, this is peripheral to the question of whether accounting on this basis reduces complexity for management and users.

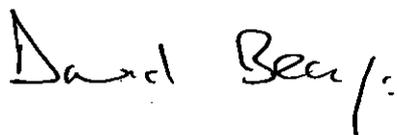
We would also encourage the IASB to better assess and to take into account the potential macro-economic impacts of fair value accounting when applied by financial institutions.

Although we respect the research-orientated and academic philosophy of the IASB, we question whether the financial instruments discussion paper would have been produced if the new proposals to enhance governance arrangements and public accountability had been in place at the time of its development. In our view, the paper fails to balance the IASB's long term desire for a full fair value model for financial instruments with constituents' more immediate priorities of reducing complexity and improving transparency.

We trust that the IASB will take the responses it receives to the discussion paper as the starting point for an open and informed discussion on the underlying issues and alternative approaches to the measurement of financial instruments. Such an approach will both demonstrate that the IASB is fulfilling its commitments to better due process and increase the possibility of practical proposals to reduce the complexity in the measurement of financial instruments being produced. To receive the support of the international banking community, any proposals brought forward as a result of the discussion paper should be achievable in the near to medium term and should reflect the reality of how businesses operate.

In conclusion, we reiterate our support for the governance proposals, our respect for the achievements of the IASB and the need to reduce complexity in the measurement regime for financial instruments. We are disappointed, however, in the evident bias set out in the IASB's paper and believe that the enhanced governance process under consideration by the Trustees would have reduced the prospect of the IASB publishing this discussion paper on the basis of such an evident bias.

Yours sincerely,

Handwritten signature of David Bell in black ink.

David Bell  
Chairman

Handwritten signature of Sally Scutt in black ink.

Sally Scutt  
Managing Director