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Trustees' Strategic Review
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Dear Sirs

Trustees' Strategic Review

The IBFed is the representative body for national and international banking federations from leading financial nations around the world. Its membership includes the American Bankers Association, the Australian Bankers' Association, the Canadian Bankers Association, the China Banking Association, the European Banking Federation, Indian Banks' Association, the Japanese Bankers' Association, the Korean Federation of Banks and the Bankers' Association of South Africa. 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.

Subsequent to publishing their strategy review paper on 5th November, the Trustees extended the deadline for comment to enable constituents to see first the Monitoring Board's proposals for the further development of the IFRS Foundation's governance. This has been appreciated. The Monitoring Board's review relates to institutional aspects of governance, in particular the composition and respective responsibilities of the Monitoring Board, Trustees and the IASB and we will be commenting upon these aspects within the April deadline.

In the meantime, we are pleased to have the opportunity to input to the four areas for examination within the strategic view on which the Trustees have invited comment: mission; governance; process; and financing.

Mission: how should the organisation best define the public interest to which it is committed?

As the paper relates, the current mission for IFRS under the constitution is for IFRSs to "require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions". The question that the Trustees are particularly interested in is whether the financial crisis means that the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements, needs to be looked at again. In fact the question posed is "to what extent can and should the two perspectives be reconciled?"

This reflects the view held by some – which we do not share – that requiring accounting standard setters to be mindful of the effect of their standards on financial stability would impair the economic neutrality of standards. While it is true to say that prudential requirements serve a different purpose to accounting standards and are grounded in a more conservative approach, this should not negate a willingness on the part of standard setters to take reasonable steps to ensure that their standards set out approaches that are reflective of the way in which the value and characteristics of assets can vary substantially according to the point at which we find ourselves in the economic cycle. It therefore seems axiomatic to us that in light of what we have learnt from the financial crisis the objective for IFRS should be changed to include specific reference to the broader regulatory environment and macroeconomic considerations including financial stability.

This would not oblige IFRS to become fully aligned with prudential capital requirements, since the two have differing purposes, and would not determine that IFRS become a macro-prudential tool. But it would involve IFRS being sensitive to broader inter-governmental objectives for financial stability and imply a more concerted effort to ensure that IFRS outcomes were consistent with the direction of broader regulatory initiatives. We should perhaps add that we would view the in-progress revisions to IAS 39 as being compatible with such a broadened objective in that they aim to encapsulate our knowledge of how instruments perform over their lives according to varying economic circumstances.

Governance: how should the organisation best balance independence with accountability?

We can see a need for three essential component parts to the governance of the IFRS Foundation – the Trustees, the IASB and the engagement of other inter-governmental bodies as represented by the Monitoring Board – but are unsure as to whether these are configured in the most effective way. This is likely to be something that we comment upon in more detail in response to the Monitoring Board's consultation on governance. As we see matters, the IASB needs operational independence to develop high quality standards, but the governance framework needs to ensure that those standards meet broader policy imperatives and to ensure that due process is appropriately designed and followed - and seen to be followed - in practice.

Process: how should the organisation best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?

We believe that the IASB's core objective should be the development of high quality international financial reporting standards set within the context of broader policy initiatives and financial stability as seen through the eyes of the G20 and the Financial Stability Board and the governments and inter-governmental organisations represented in these bodies. We see this as a collective responsibility and believe that convergence with US standards should be viewed as a component part of this as opposed to a first order priority in its own right. The strategic imperative therefore is for the IFRS Foundation to strengthen further its governance and due processes so that it can be confident that it is delivering principles-based standards that meet the needs of the world's capital markets.

Consistent implementation is also an important part of the jigsaw and we would consider it only appropriate for the IFRS Foundation to build into its make-up some form of implementation monitoring as it enters its second decade.

We are also aware that from time-to-time differences of opinion arise on the meaning that should be read into standards. This does not always require 'interpretation' as such and we are not in favour of the development of pages and pages of guidance in response to sometimes tangential concerns. But we can see a potential need for some form of mechanism aimed at supporting some form of review where it emerges that there is a broad based concern about the meaning that should be given to a standard.

Financing: how should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?

The IFRS Foundation's funding is from an increasingly diverse base and is therefore heading in the right direction. We favour automatic processes over voluntary donation, subject to appropriate budgetary oversight, consultation and discipline, but can see that with differing cultures and legal systems a hybrid model is likely to be necessary.

Are there any other issues that the Trustees should consider?

The IFRS Foundation and the IASB have taken significant steps forward in recent years and this has included improvements in due processes and the way in which they engage with constituent parties. This includes both the formal arrangements and informal arrangements which support them, and both have improved as the Board has sought to review its standards in light of the learning points of the financial crisis. Improved practices include visible and regular attempts at outreach and this can only improve the quality of the standards under development.

An issue for consideration going forward may be whether the interests of all user groups are met by what appears to be an ever present demand for the disclosure of increasingly complicated information. It is arguable that less is more and that we should in future undertake a deliberate review of whether the value added by any potential supplementary information outweighs the benefit of shorter, simpler accounts.

Remaining criticism of Board proposals often relates to their practicability. This to us suggests that the Board would benefit from the participation of part-time board members who may place greater weight on less cerebral issues including the question of whether proposals achieve the right balance between accounting purity and ease of application.

Yours faithfully.



Sally Scutt
Managing Director
IBFed



Wim Mijs
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