



Via Email

February 24, 2011

Trustees  
IFRS Foundation  
30 Cannon Street  
London EC4M 6XH  
UK

Re: *Paper for Public Consultation, Status of Trustees' Strategy Review ("Strategy Paper")*<sup>1</sup>

Dear Trustees of the IFRS Foundation:

I am writing on behalf of the Council of Institutional Investors ("Council"), a United States ("U.S.") based nonprofit association of public, union and corporate pension funds with combined assets that exceed three trillion dollars.<sup>2</sup> Member funds are major shareowners with a duty to protect the retirement assets of millions of American workers.<sup>3</sup> The Council very much appreciates the opportunity to provide its views on the above referenced Strategy Paper.

As you may be aware, the Council's membership approved policies have long contained a statement generally supporting efforts by the International Accounting Standards Board ("IASB") to work with the Financial Accounting Standards Board ("FASB") and other national standard setters "toward a common goal of convergence to a single set of high quality standards designed to produce comparable, reliable, timely, transparent and understandable financial information that will meet the needs of institutional investors" ("Statement").<sup>4</sup> The Statement, however, also opposes replacing U.S. generally accepted accounting principles and the FASB, with international financial reporting standards ("IFRS") and the IASB, respectively, unless and until certain criteria or milestones have been met.<sup>5</sup>

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<sup>1</sup> IFRS Foundation, Paper for Public Consultation, Status of Trustees' Strategy Review 1 (Nov. 5, 2010), <http://www.ifrs.org/NR/rdonlyres/FD229996-AD4B-4CBC-8A7A-F33E4A640270/0/StrategyReviewdocforpublicconsultFINAL.pdf> [hereinafter Strategy Paper].

<sup>2</sup> Of note, on average approximately twenty percent of the Council of Institutional Investors' ("Council") member fund assets are comprised of non-domestic equity or fixed income securities. Council of Institutional Investors, Asset Allocation Survey 2010, at 2 (on file with Council).

<sup>3</sup> For more information about the Council and its members, please visit the Council's website at <http://www.cii.org/about>.

<sup>4</sup> Council of Institutional Investors, Statement on Independence of Accounting and Auditing Standard Setters 1 (Adopted Oct. 7, 2008), <http://www.cii.org/UserFiles/file/Statement%20on%20Independence%20of%20Accounting%20and%20Auditing%20Standard%20Setters.pdf> [hereinafter Statement].

<sup>5</sup> *Id.* at 1-2. Of note, we plan to soon issue a whitepaper that will explore whether the Council's criteria or milestones have been achieved.

We note that many of the criteria or milestones contained in the Statement have been adopted, at least in part, by the U.S. Securities and Exchange Commission (“Commission”) as “factors relevant to the Commission determination in 2011 as to whether, when, and how our current financial reporting system for U.S. issuers should be transitioned to a system incorporating [IFRS].”<sup>6</sup> The Statement provides the basis for the following Council responses to the “four areas for examination” identified in the Strategy Review:

**1. Mission: How should the organisation best define the public interest to which it is committed?**<sup>7</sup>

We believe the objective set forth in the current IFRS Foundation Constitution should be revised as follows:

These standards [IFRSs] should 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 modest proposed revision more clearly aligns the objective of the standard setting organization with the primary purpose of financial accounting and reporting.<sup>8</sup> It also has the benefit of reducing possible confusion by some parties about whether the mission of the organization encompasses (or should encompass) other broader public policy objectives, such as “financial stability,” that may conflict with or otherwise detract from the primary purpose of financial accounting and reporting.<sup>9</sup>

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<sup>6</sup> Office of the Chief Accountant, Division of Corporation Finance, United States Securities and Exchange Commission, Progress Report, Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers 1 (Oct. 29, 2010), <http://www.sec.gov/spotlight/globalaccountingstandards/workplanprogress102910.pdf> [hereinafter Progress Report].

<sup>7</sup> Strategy Paper, *supra* note 1, at 3.

<sup>8</sup> See, e.g., Press Release, IFRS Foundation Monitoring Board, Statement of the Monitoring Board for the International Accounting Standards Committee Foundation on Principles for Accounting Standards and Standard Setting 2 (Sept. 22, 2009), <http://www.iasplus.com/iascf/0909monitoringboardstatement.pdf> (“We view the primary objective of financial reporting as being to provide information on an entity’s financial performance in a way that is useful for decision-making for present and potential investors”) [hereinafter Board Release].

<sup>9</sup> See, e.g., Report of the Financial Crisis Advisory Group 7 (July 28, 2009), <http://www.iasb.org/NR/rdonlyres/2D2862CC-BEFC-4A1E-8DDC-F159B78C2AA6/0/FCAGReportJuly2009.pdf> (“in some circumstances . . . differences in the focus of accounting standard setters and prudential regulators as they pursue their missions may create conflicts”) [hereinafter FCAG Report].

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**2. Governance: how should the organisation best balance independence with accountability?**<sup>10</sup>

We believe that an important principle underpinning high-quality accounting standards is the independence of the standard setting organization.<sup>11</sup> As described in our membership approved Statement:

The international standard setter [must have] . . . a structure and process that adequately protects the standard setter's technical decisions and judgments (including the timing of the implementation of standards) from being overridden by government officials or bodies.<sup>12</sup>

We note that our views on this issue are generally consistent with the following finding of the Investors' Working Group, a blue-ribbon task force co-sponsored by the Council and the CFA Institute:<sup>13</sup>

In order to create high quality accounting standards, it is critical that the process be independent and free from political pressure. This will ensure that such standards are neutral and faithfully represent economic reality. [An accounting standard setter lacking independence may produce standards that] . . . reduce the free flow of transparent and reliable financial information, [and] . . . undermine investor interests and weaken their ability to make sound investment decisions.<sup>14</sup>

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<sup>10</sup> Strategy Paper, *supra* note 1, at 3.

<sup>11</sup> See, e.g., Board Release, *supra* note 8, at 3 ("Confidence in the quality and integrity of the standards depends upon independence and transparency in the standard setter's due process").

<sup>12</sup> Statement, *supra* note 4, at 2.

<sup>13</sup> For more information about the Investors' Working Group, please visit the Council's website at <http://www.cii.org/iwglInfo>.

<sup>14</sup> Press Release, CFA Institute and Council of Institutional Investors, Investors' Working Group Dismayed and Concerned With Threats to Financial Accounting Standards Board Independence 1 (Apr. 1, 2009), <http://www.cii.org/UserFiles/file/resource%20center/investment%20issues/IWG%20Press%20Release%2004-02-2009-2.pdf>.

We also believe that the standard setting organization must have a high degree of accountability to the public.<sup>15</sup> In our view, however, such accountability can be achieved without diluting the independence of the standard setting organization by simply providing for a transparent and thorough public due process for establishing the standards.<sup>16</sup> Importantly, that process should permit interested parties the opportunity to inform the standard setter's evaluation of pertinent issues and observe or listen to the standard setter's deliberations of those issues as they occur.<sup>17</sup>

**3. 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?<sup>18</sup>**

As indicated in response to the previous issue, we believe that a transparent and thorough public due process is an important principle ensuring that a standard setting organization may issue standards that are of high quality.<sup>19</sup> As described in our membership approved Statement:

The international standard setter [must have] . . . a thorough public due process that includes solicitation of investor input on proposals and careful consideration of investor views before issuing proposals or final standards.<sup>20</sup>

We also believe that the goal of converging to a single set of high quality accounting standards that will meet the information needs of investors and the capital markets will not be achieved without consistent implementation of the standards across the world.<sup>21</sup> The success of the implementation effort will largely be dependent upon the coordination, cooperation, and vigilance of the global auditing profession and the regulators' responsible for enforcing accounting and auditing standards and related laws and regulations.<sup>22</sup>

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<sup>15</sup> See, e.g., FCAG Report, *supra* note 9, at 14 ("At the same time that the Boards must enjoy freedom to act independently, they must also have a high degree of accountability to constituents").

<sup>16</sup> See, e.g., Board Release, *supra* note 8, at 3.

<sup>17</sup> *Id.* ("Visibility into the standard setting process should be sufficient to enable users to trace the evolution of the standard from thoughtful consideration of alternatives to final positions").

<sup>18</sup> Strategy Paper, *supra* note 1, at 3.

<sup>19</sup> See, e.g., Board Release, *supra* note 8, at 3.

<sup>20</sup> Statement, *supra* note 4, at 2.

<sup>21</sup> See, e.g., FCAG Report, *supra* note 9, at 13 ("even if accounting standards are converged, differences in financial reporting may arise from differences in national or regional auditing standards, or differences in enforcement").

<sup>22</sup> *Id.* (Urging "appropriate international organizations to take note and reach converged solutions and common interpretations that will harmonize with those of the accounting standard setters").

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**4. Financing: how should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?<sup>23</sup>**

We believe that in order to ensure that the accounting standard setting organization operates effectively and efficiently it must have a permanent and fully independent financing structure.<sup>24</sup> As described in our membership approved Statement:

The international standard setter [must have] . . . sufficient resources—including a secure stable source of funding that is not dependent on voluntary contributions of those subject to the standards.<sup>25</sup>

We also agree with an observation of the Commission that a financing structure that would involve funding the organization through “direct Congressional appropriations,” or an equivalent governmental process, could result in unnecessary “pressures on . . . standard setting” that would likely be inconsistent with operating effectively and efficiently to meet the needs of investors.<sup>26</sup>

We again appreciate the opportunity to comment on the Strategy Review. If you have any questions or need any additional information, including any additional external citations supporting our responses, please feel free to contact me at 202.261.7081 or [jeff@cii.org](mailto:jeff@cii.org).

Sincerely,



Jeff Mahoney  
General Counsel

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<sup>23</sup> Strategy Paper, *supra* note 1, at 4.

<sup>24</sup> See, e.g., FCAG Report, *supra* note 9, at 17 (“IASB must have a permanent funding structure under which sufficient funds are provided to it on an equitable and mandatory basis”).

<sup>25</sup> Statement, *supra* note 4, at 2.

<sup>26</sup> Progress Report, *supra* note 6, at 24 (“The Staff’s consideration also will be informed by the legislative history concerning the funding mechanism established for the FASB, which appears to express a preference against mechanisms that could result in pressures on its standard setting, such as funding from contributions from the accounting industry or through direct Congressional appropriations”).