

**Prepared statement of Gerrit Zalm, Chairman
of the International Accounting Standards Committee Foundation,
before the Economic and Monetary Affairs Committee of the European Parliament**

8 April 2008

Madame Chairwoman, Members of the Economic and Monetary Affairs (ECON) Committee, I welcome this opportunity to appear before you today to discuss developments related to International Financial Reporting Standards (IFRSs). As you know, I am a relative newcomer to the world of accounting standard-setting, and this in my first formal appearance as Chairman of the IASC Foundation Trustees in front of the ECON Committee. In recent months, I have met with many members of the Committee and have appreciated your support for the goal of a single set of accounting standards for the world's capital markets. I also remember some more critical remarks from the European Commission and the European Parliament.

Over the last 18 months, the Trustees and the International Accounting Standards Board (IASB) have placed particular emphasis on their engagement to ensure that we get input at the earliest possible stage. It is my hope that this meeting will provide another opportunity for dialogue.

My colleagues on the Trustees and I have read with interest the Radwan Report on our governance arrangements and the IASB's work. As members of the ECON Committee know, in November 2007, we Trustees made initial proposals to enhance the IASC Foundation's public accountability. At our last Trustees' meeting in London, only three weeks' ago, the Trustees agreed to a Constitution Review process to advance these proposals formally. Today I would like to focus my comments on the upcoming Constitution Review and to seek the views of members of the Committee on our initial proposals.

A changing world for IFRSs

When I joined the Trustees, I characterized the IASC Foundation's work as a romantic project. Although accounting is not frequently associated with romantic thoughts, I can think of no other international body that has come so far in setting a global standard. As the latest financial crisis demonstrates, the world's capital markets are linked together, and IFRSs can play a powerful role in providing transparency and comparability for investors, public authorities, and other participants in the world's capital markets. For me, this was and is a project worth pursuing.

The progress has been steady. More than 100 countries have agreed to require or permit the adoption of International Financial Reporting Standards (IFRSs) or have established timelines towards the adoption of IFRSs. I have been struck by the speed of change. In the last year, Brazil, Canada, China, and India have all committed to formal timelines to adopt IFRSs, and Japan established 2011 as its target for convergence to IFRSs.

What has been equally encouraging—and even surprising—has been the openness of attitude of the United States towards IFRSs. In November 2007, the US Securities and

Exchange Commission (SEC) agreed to eliminate the reconciliation requirement, with immediate effect, for those non-US companies using IFRSs as prepared by the IASB. At the same time, the SEC is giving serious consideration to a proposal to permit US companies to use IFRSs. While the SEC is still in the process of considering this proposal, I believe that it is reasonable to expect that US companies will be permitted to use IFRSs in the near future.

For me, as a European and a former Finance Minister involved with the adoption of IFRSs in the European Union, this is a proud moment. The European Union's strategy to adopt an international standard, rather than a particularly European one, has been validated. Not too long ago, some Americans would say, "If you wanted to adopt a widely accepted international accounting standard, then adopt US GAAP." Now, the view is quite the opposite. The United States, even the US standard-setter, is calling for the adoption of IFRSs, not on the basis that it will be US GAAP under another name, but on the basis it remains a principles-based set of standards instead of a more rules-based system. This is a major shift.

The IASB and its counterpart in the United States also deserve credit for the progress made on the Memorandum of Understanding (MoU), without which the change in US attitudes would not be possible. The IASB is only halfway through its MoU work, and to fulfill our end of the agreement, the work on the MoU must continue. The Trustees are committed to providing the IASB with the necessary resources to complete the MoU work.

The advances in IFRS adoption in Europe, the United States, and elsewhere mean that the IASC Foundation operates in a different world from the one that it faced in May 2000 when it inherited its original Constitution. As we prepare to embark on the organisation's second Constitution Review, we see it as an opportunity for the Trustees, to assess the continued appropriateness and relevance of the existing governance arrangements and to engage again with our key stakeholders.

A commitment to enhanced accountability

When the Foundation's predecessor body constituted the new IASC Foundation, the new structure was based on the operating premise that accounting standards should be set, following an extensive and transparent due process, by a highly professional, independent body, the IASB. The IASB should be appropriately protected from particular national, sectoral or special interest pleading. The Trustees believe that the fundamental premise of the original Constitution remains sound. It was only in July 2005, following extensive consultation throughout the world, that the Trustees completed their first five-yearly Constitution Review, where this premise was reaffirmed.

At the same time, the Trustees have recognised, and continue to recognise, the need to demonstrate the organisation's public accountability. As a result of the previous Constitution Review, completed in June 2005, the Trustees took a number of steps to reinforce their public accountability. These have included steps to formalise their oversight function more clearly and to enhance the IASB's due process. For example, the Trustees have:

- established a framework to assess their effectiveness in carrying out their constitutional responsibilities

- created the Due Process Oversight Committee
- enhanced the procedures for performance reviews of the IASB
- implemented regular meetings with various interested external parties, including public officials and business, investor and accountancy organisations
- deepened their interaction with the IASB to discuss matters related to the organisation's strategy and performance.

As part of their oversight responsibilities, the Trustees have encouraged and approved enhancements to the IASB's due process. Specifically, the IASB:

- broadcasts over the Internet all of its meetings and meetings of its working groups
- posts on its Website enhanced observer notes to enable interested parties to follow the IASB's deliberations
- provides a minimum of one year between the approval and the required application of new IFRSs or major amendments to IFRSs
- emphasises consultation through the increased use of discussion papers, working groups, and longer comment periods
- has introduced feedback statements, impact assessments and two-year post-implementation reviews, and provides greater oral feedback to interested parties.

We are pleased that these changes have produced increased transparency and improved engagement with interested parties in the IASB's work. We are now being recognised as best practice among international NGOs. A report by One World Trust, which reviewed the accountability procedures of international organisations, writes, "The IASB has developed procedures that bring transparency, predictability and consistency to the way its key constituencies are involved in its activities and should be congratulated on its achievements. We would like to see more global organisations doing the same."

But, as One World Trust and the Radwan Report rightly recognise, there is always room for improvement in an organisation's public accountability. As a result of the rapid advance of IFRS adoption and following the input resulting from their increased interaction with external parties, the Trustees initiated a review of the organisation's strategy in early 2007. The Trustees believe that a long-term assessment of the organisation's objectives and future would be useful in preparing for the Constitution Review that is now underway.

In particular, the strategy review highlighted the need to enhance the public accountability of the IASC Foundation, if the IASB were to become the world's accounting standard-setter, a clear organisational objective. As a European and former politician like you, I can understand why you find it unusual that a body overseen by a self-appointed group of Trustees, but not formally reporting to any public authority, is de facto setting law in Europe and elsewhere. Furthermore, as parliamentarians, you have no ability to amend the standards that come before you.

Indeed, members of the European Parliament face the same situation as parliamentarians and national regulators throughout the world when it comes to the adoption of IFRSs. One of my chief objectives as Chairman of the Trustees is to avoid future carve-outs of IFRSs. To address the "peculiar" situation that I described, on an operational level, the Trustees and the IASB are seeking to engage key interested parties, including the members of the European Parliament, at the earliest stages possible in a consultation.

The Monitoring Group

More importantly from a systemic level, we Trustees are recommending the establishment of a Monitoring Group to end the practice of self-appointment and to create a formal link to public authorities, including the European Commission. The establishment of such a link is aimed at providing public authorities greater comfort with our governance arrangements and operations. Specifically, we are recommending the creation of the Monitoring Group, along with a proposal to increase the size of the IASB and add a geographical element to its composition, as one of the two issues to be fast-tracked as part of the Constitution Review.

Under the new Monitoring Group arrangement, the governance of the IASC Foundation would remain with the Trustees, and the responsibilities of the Trustees and the independence of the standard-setting function, as laid out in the existing Constitution, would remain fundamentally unchanged. However, this Monitoring Group, a representative group of public officials responsible for the adoption and promotion of IFRSs throughout the world's capital markets, would have a monitoring function to ensure that the Trustees are fulfilling their constitutional obligations and that the selection of Trustees is conducted in an appropriate and transparent manner.

The Monitoring Group would be responsible for approving the selection of Trustees after an agreed nominations process administered by the IASC Foundation. The Trustees or a subgroup of the Trustees shall meet the Monitoring Group at least once annually, and more frequently as appropriate. The Monitoring Group will also have the authority to request meetings with the Trustees or separately with the chairman of the Trustees (with the chairman of the IASB, as appropriate) regarding any area of work of either the Trustees or the IASB. At these meetings, the Trustees would report to the Monitoring Group regularly to enable it to verify that the Trustees are fulfilling the requirements set out in the Constitution. This would include a review of Trustee procedures for:

- appointing members to the IASB
- reviewing the strategy of the IASC Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda
- reviewing the IASB's compliance with its operating procedures, consultative arrangements and due process
- ensuring the adequacy of the financing arrangements for the IASB and other IASC Foundation activities.

Our proposal for the composition of the Monitoring Group that we are putting forward for consultation is as follows:

- (a) the responsible member of the European Commission,
- (b) the managing director of the International Monetary Fund,
- (c) the chair of the IOSCO Emerging Markets Committee,
- (d) the chair of the IOSCO Technical Committee (or deputy chair in cases where either the Chairman of the Japan Financial Services Agency or Chairman of the US Securities and Exchange Commission is the chair of the

- IOSCO Technical Committee),
- (e) the chairman of the Japan Financial Services Agency,
 - (g) the chairman of the US Securities and Exchange Commission, and
 - (f) the president of the World Bank

Of course, we will be open to the Committee's input and comments of other parties on the appropriate composition, as well as other aspects, of the Monitoring Group. However, I believe that it is essential for the group's credibility that participation remains at the highest levels at public authorities responsible for the adoption of IFRSs throughout the world.

The composition of the IASB

When it comes to the IASB, the Trustees still believe that the Constitution's emphasis on 'professional competence and practical experience' is appropriate. However, to account for the growing acceptance of IFRSs, we are also recommending the expansion of the IASB to 16 members. The expansion to 16 is justified on the following grounds:

- **IASB members needed for liaison:** As the IASB becomes the global standard-setter, the liaison and communications task for IASB members continues to grow. This needs to be shared broadly, while permitting time for IASB members to work with staff and relevant internal working groups in developing international accounting standards.
- **Diversity as providing legitimacy:** While professional competence (particularly technical expertise) and practical experience are the foremost criteria for IASB selection, the diversity of IASB members (professional and geographical) provides legitimacy in the eyes of many who adopt the standards.
- **Diversity as enabling new perspectives:** The introduction of IASB members from different backgrounds has enabled the IASB to account for issues that may not have been raised in the past.

In expanding the IASB to 16 members, the Trustees believe that the Constitution should also reflect in a positive manner the need for a broad geographical spread of the IASB's membership, like that defined for the Trustees. At the same time, the Constitution should provide sufficient flexibility to account for emerging economies and changing economic weight. Therefore, the Trustees are proposing that the 16 members be distributed in the following manner:

- (a) four IASB members from the Asia/Oceania region;
- (b) four IASB members from Europe;
- (c) four IASB members from North America; and
- (d) four IASB members appointed from any area, subject to maintaining overall geographical balance.

The establishment of clear geographic minimums will give further assurance that the distribution of IASB members will remain balanced in the future.

Carrying forward the Constitution Review

As I mentioned earlier, our aim is to finalise the review on those two priority topics at our October 2008 meeting in Beijing with the aim for implementation in January 2009. We will be publishing our formal proposals for public comment in the coming days, and the comment period, in line with our normal due process will last through July. In the intervening period, we will meet with interested parties to discuss these proposals.

The completion of these two issues, however, is only the first stage of our Constitution Review. The Trustees are committed to conducting a thorough and transparent Constitution Review that will enable interested parties to raise any issues that they wish for the Trustees to consider and to provide opportunities to input on proposals. I am attaching as an appendix to my formal written statement a description of how we intend to proceed with the Constitution Review.

I would be pleased to answer any questions that you have on the proposals that I described, the Constitution Review process in general, or other issues of concern to the Committee. We greatly appreciate your continued interest in our work.

Appendix: Organising the Constitution Review

1 Though emphasising early on the priority of public accountability, the Trustees will conduct a thorough and transparent Constitution Review that will enable interested parties to raise any issues that they wish for the Trustees to consider and to provide opportunities to input on proposals. This section describes how the Trustees anticipate proceeding with the Review.

2 The Trustees have now established a Constitution Committee, which comprises the following Trustees:

Gerrit Zalm, Chairman of the Trustees
Philip Laskawy, Vice Chairman of the Trustees
Bertrand Collomb
Samuel DiPiazza
Aki Fujinuma
Pedro Malan
Antonio Vegezzi

3 The Trustees as a whole will reach conclusions on the Constitution Review and the Constitution Committee will help manage the process. The Trustees have established the following procedures to help ensure an efficient and transparent process:

- The Constitution Committee will make non-binding recommendations to the Trustees, and the Trustees as a whole will make final decisions regarding any changes in the Constitution.
- Any discussions related to the Constitution during the full Trustees' meetings will be held during the public sessions of Trustees' meetings.
- The Committee will engage in intensive public consultations before making recommendations to the full Trustees. The consultations will include:
 - discussions with interested parties
 - possibly, public meetings or roundtable discussions around the world
 - the publication of papers to assist those attending the public discussions of the Trustees or the Committee to follow the deliberations.
 - the publication of all proposals with a period for public comment before the Trustees reach a conclusion.

4 In launching the Constitution Review, the Trustees are seeking the desire to balance their immediate priority—addressing issues related to public accountability—and the need to have a thorough and inclusive process on other elements of the Constitution. Therefore, the Trustees will advance the Constitution Review on two tracks. First, in this document, the Trustees are making proposals aimed at the organisation's public accountability and issues of size and geographic diversity of the standard-setting body, the IASB. Second, the Trustees will proceed with the review of other issues in the Constitution.

5 On that basis, the Trustees envisage the following timeline for the review:

Date	Action Step
April 2008	Publication of proposals concerning public accountability and IASB size/geographic diversity—the first track of the Constitutional Review. Comment period to end on 31 July.
April-August 2008	Trustees to meet with interested parties to discuss proposals on the first track

September 2008	Constitution Committee to develop proposals to present to full Trustees, based upon analysis of comment letters and other input on the first track proposals.
October 2008	Trustees to conclude the first track of Constitution Review at Beijing meeting. Changes to take effect for 1 January 2009.
October or November 2008	Trustees to issue a discussion document asking for input regarding other issues to be incorporated as part of the Constitutional Review—the second track of the Constitution Review.
October 2008-January 2009	Trustees to meet with interested parties to discuss the second track of Constitution Review.
February 2009	Trustees to develop list of issues and the Constitution Committee to develop proposals.
April 2009	Trustees to publish other Constitutional proposals on issues identified.
April 2009-October 2009	Trustees to hold a series of meetings, possibly including public roundtables, on proposals
October-November 2009	Conclusion of the Constitutional Review.