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**International  
Accounting Standards  
Committee Foundation**

*This document is provided as a convenience to observers at IASCF meetings, to assist them in following the discussion.*

## **INFORMATION FOR OBSERVERS**

**IASCF Meeting with Monitoring Board  
1 April 2009**

**Agenda Paper MB 2A**

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### **REPORT OF THE IASC FOUNDATION CHAIRMAN**

The financial crisis gripping the world's capital markets is the most significant challenge facing economic policymakers and regulatory bodies since the 1930's. One lesson is clear—the financial crisis is a global problem demanding a global response. The leaders of the world's major developed and emerging economies recognised this reality when they highlighted the need to coordinate regulatory initiatives when the Group of 20 (G20) met in Washington, DC, USA, on 15 November 2008.

The Trustees of the IASC Foundation and the International Accounting Standards Board (IASB) recognise role a single set of accounting standards used worldwide could play in establishing a more effective regulatory infrastructure for the world's integrated capital markets. International Financial Reporting Standards (IFRSs), set by the IASB, are now used in more than 100 countries. Significant advances were made toward further IFRS adoption in major economies throughout the world in 2008. By the end of 2008, most of the world's developed and emerging economies—including nearly all of the G20 members—have made commitments to IFRSs.

#### **Enhancing public accountability and global acceptance of IFRSs**

At our January 2009 meeting in New Delhi, the Trustees completed the first part of their five yearly review of the IASC Foundation—this review was one of the Trustees' major priorities in 2008. The first part of our Constitution Review addressed the issue of public accountability by creating a link to a Monitoring Board of public authorities. At the same

time, the international basis of the IASB was strengthened by increasing its size from 14 to 16 members by July 2012 and providing some geographical guidelines.

A 2007 strategy review of the Trustees highlighted the need to enhance the public accountability of the IASC Foundation, if the IASB were to become the world's accounting standard-setter. Therefore, the Trustees gave the issue of public accountability fast-track priority for the Constitution Review in 2008. The relevance of this priority was confirmed when a group of regulators (the International Organization of Securities Commissions, the European Commission, the Japan Financial Services Agency, and the US Securities and Exchange Commission) issued in November 2007 a press release regarding the IASC Foundation's public accountability. In reaching our conclusions, we conducted a consultation process that included round table discussions in London and a public comment period, where we received responses from more than 70 individuals and organisations.

Our Constitutional changes are a significant enhancement to existing governance arrangements. Underpinning the organisation's structure is the internationally-accepted principle that global accounting standards should be developed by an independent IASB. The IASB reaches conclusions following a transparent and open due process that considers the views of all stakeholders. An independent and geographically diverse body of Trustees oversees the IASB. Under the Constitutional changes, the Trustees themselves are now publicly accountable to a Monitoring Board of public authorities.

This basic approach to the architecture of governance is similar to that in place in many national jurisdictions for accounting standard-setters. Our consultation process revealed strong and consistent support among investors and other stakeholders on the need to maintain, within agreed due process, the independence of the IASB's decision-making. At the same time, stakeholders understood the need to establish a formal linkage to public authorities, where none was previously defined, and strongly encouraged our efforts to enhance the organisation's public accountability.

Therefore the first part of the Constitution Review focused on the creation of a direct link to public authorities—one that would seek to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard-setters. The initial membership will comprise the relevant leaders from the IOSCO Emerging Markets and Technical Committees, the European Commission, the Japan FSA, and the US SEC. The Basel Committee on Banking Supervision will sit as an observer at Monitoring Board meetings.

The Monitoring Board's main responsibilities are to ensure that the Trustees continue to discharge their duties as defined by the IASC Foundation Constitution, as well as approving the appointment or reappointment of Trustees. It is envisaged that the Monitoring Board will meet the Trustees at least once a year, or more often if appropriate. The relationship and responsibilities of the participating organisations are described in the Memorandum of Understanding (MoU) developed by the members of the Monitoring Board and the Trustees.

The Monitoring Board arrangements do not substitute for existing consultation requirements. Indeed, the Trustees are stepping up their efforts for greater dialogue with interested parties through the Standards Advisory Council, which was reconstituted in 2008 and met for the first time in February 2009. The Trustees and the IASB are also working to build stronger relationships with stakeholders representing the user, preparer, auditor, academic, and regulatory communities.

Furthermore, consistent with the recommendation of the G20 to examine the membership of standard-setting bodies, the Trustees also approved, in New Delhi on 15 January, a Constitutional change that will expand the IASB to 16 members and provides guidelines regarding geographic diversity. In order to ensure a broad international basis, there shall normally be:

- four members from the Asia/Oceania region;
- four members from Europe;
- four members from North America;
- one member from Africa;
- one member from South America; and
- two members appointed from any area, subject to maintaining overall geographical balance.

The Trustees have already strengthened the contingent from Asia-Oceania with the recent appointments of Prabahkar Kalavacherla of India (formerly a partner with KPMG). The focus in 2009 is to identify qualified candidates who will provide practical experience from the user, preparer, and regulatory perspectives.

In December 2008, the Trustees launched the second part of the Constitution Review by publishing a discussion document. The purpose of the discussion document is to seek comment on the full range of constitutional issues that were not addressed in the first part of the review. During the first part of the review, commentators raised the need to examine the possibility of introducing emergency due process procedures, the IASB's agenda-setting process, the effectiveness of the Standards Advisory Council, and the ongoing financing efforts. These will certainly be priority issues for the Trustees in 2009.

### **A responsible and active approach to the financial crisis**

My colleagues on the Trustees and the IASB have responded and will continue to respond in an urgent and responsible manner to help restore confidence in financial markets. The Trustees have supported the IASB's efforts, under David Tweedie's leadership, to respond promptly to the recommendations of the Financial Stability Forum and the G20, particularly in the areas of off-balance sheet items and the development of educational guidance for the application of fair value in illiquid markets. The Trustees have monitored closely the IASB's response to the recommendations made at the November 2008 G20 meeting for action by 31 March 2009, to the proposals coming out of the Financial Stability Forum, and to other suggestions that have been made: the Trustees believe that the IASB has dealt effectively and promptly with all of these issues.

The Trustees encouraged the initiative of IASB and the US Financial Accounting Standards Board (FASB) to assemble the Financial Crisis Advisory Group (FCAG), chaired by Harvey Goldschmid, a former US SEC Commissioner, and Hans Hoogervorst, Vice Chairman of IOSCO's Technical Committee. The FCAG, comprised of senior leaders from business and government, will make an important contribution to the IASB's consideration of issues arising from the financial crisis.

One of the clear lessons of the financial crisis is that we must press on with and even accelerate convergence efforts, where possible, and seek commitments towards the achievement of a single set of accounting standards, administered by a single standard setter

and used throughout the world. Indeed, the continuing existence of different accounting standards and multiple standard setting bodies provides the opportunity for regulatory arbitrage. This was very much the case when in the midst of a sudden downturn in the markets, EU leaders requested that the IASB re-examine the prohibition contained in IAS 39 *Financial Instruments* against reclassifying some financial assets out of the held-to-maturity category. The change was necessary, they argued, in order to bring IFRSs more in line with US generally accepted accounting principles (GAAP), which allowed such transfers in limited circumstances.

At our Beijing meeting in October, the Trustees faced a difficult decision, as might be anticipated when there are multiple standard-setters and sets of standards. Had the Trustees and subsequently the IASB not acted, the likely outcome would have been a change, resulting in no guidance in the rules as to when such transfers are permitted, no guidance of required disclosure, and the possibility for greater inconsistency in application between IFRSs and US GAAP.

In these circumstances, the IASB crafted an amendment to IAS 39 which sought to create a more level playing field between IFRSs and US GAAP. Additionally, the IASB required full disclosure of such transfers. The Trustees allowed the IASB to waive its due process to effect this amendment. The Trustees strongly believe, in light of the context, with the transparency of the disclosures, and because of the way the rule was crafted, that this exceptional waiver of the due process in these unprecedented times was warranted.

However, we are also united in our commitment to appropriate due process. As part of the second part of the Constitution Review, the Trustees are seeking input on how emergency due process procedures might be introduced.

The Trustees and the Monitoring Board are committed to protecting the independence of the IASB's decision-making process. The establishment of the Monitoring Board should help to strengthen the IASB's independence by providing more legitimacy through public accountability. The capital market authorities serving on the Monitoring Board have often been an effective shield against parochial interests in a national or international setting. The existence of the Monitoring Board should also provide a forum to raise issues of great urgency with bodies fully committed to the need for an independent standard-setter.

### **Building a well-resourced independent standard-setter**

One of the major responsibilities for the Trustees remains securing the necessary resources to operate the organisation. The adoption of IFRSs throughout the world, combined with the pressures of the ongoing financial crisis, has placed increasing demands on the organisation. The Trustees have also made it a priority to ensure that an adequate financing regime is in place to ensure that the IASC Foundation fulfils its public interest objectives.

In 2008 we have had three primary financial objectives in the financial area:

- Prudently expanding staff resources to respond to a growing workload
- Projecting the resource requirements over five years following the 2007 strategy review
- Continuing to advance the long-term financing initiative, begun in 2006 and, to a great extent, in place for the 2008 financial year

## *2008 financial results*

For the first time in three years, in 2008, the IASC Foundation ran a profit before fair value changes and exchange gains were taken into account, totalling £528,311 in 2008 compared with a loss of £210,530 in 2007. Highlights from the 2008 financial year include:

- **Expanded capacity and enhanced consultation:** The IASC Foundation was able to achieve this result despite significantly increasing the resources devoted to staff and consultations, both a necessary by-product of the IASB's response to the financial crisis and commitment to pursuing the targets set out in its Memorandum of Understanding with the US FASB.
  - Salaries, wages, and benefits rose to £12.5 million (£11 million from non-publications related activities) from £11 million (£9.7 million from non-publications related activities), as the number of employees increased from 91 to 101.
  - With the reach of IFRSs growing, the organisation has placed increased emphasis on the need for consultation internationally. Costs related to meetings of the Trustees, IASB, and other committees increased from £2.1 million in 2007 to £2.4 million in 2008.
- **Significant growth of revenues:** The IASC Foundation benefited from the introduction of new funding mechanisms throughout the world in 2008 and continued strong interest in IASC Foundation publications and educational conferences. Revenues grew from £16.9 million in 2007 to £19.8 million in 2008—a 17 percent increase.

The strong financial results in 2008, before fair value changes and exchange gains are taken into account, means that the IASC Foundation has improved its cash and investment position. By the end of 2008, the IASC Foundation had £6.6 million in cash on deposit (£4.8 million in 2007) and bonds worth £7.7 million (£7.2 million in 2007)—a total of £13.5 million in liquid funds. The funds in bonds represent funds not immediately required for operations. They are invested in sterling-denominated, fixed rate notes of the UK government and international organisations with an AAA rating. Funds are divided in relatively equal sums with maturities in each of the next four years to provide steady cash flow if the financing system falters.

While the IASC Foundation is reporting an operating surplus for 2008, the financial statements show a loss from total comprehensive income of £1.7 million (compared to a loss of £212,172 in 2007). This loss is primarily the result of a fair value adjustment from forward exchange contracts, used to remove exchange rate risk associated with contributions. The great majority of IASC Foundation financing is set in either US dollars or Euros, while the organisation's expenditures are in sterling.

To provide certainty regarding future revenue, the Trustees have purchased forward currency contracts on a two-year outward looking basis. The great majority of the forwards for 2009 and 2010 were bought in early 2008, before the rapid depreciation of sterling. At year end, the fair value loss of these forward contracts totalled £3.4 million. However, these losses will unwind in future years and will be netted against the increased value of US dollar and Euro contributions, which are not recognised as income until received. Indeed, the projection of more than £17 million in contributions in 2009 (up from £12.8 million in 2008) is largely a reflection of the relative strength of the US dollar and Euro versus sterling.

### *Looking out five years*

In 2007 the Trustees launched a strategy review to develop action steps required to make IFRSs the pre-eminent set of accounting standards used worldwide. As a result of that study, the Trustees concluded that they required a firmer understanding of the resource requirements over the next five years to guide the ongoing funding efforts.

At the end of 2008, the Trustees had begun developing a five-year financial plan. This plan will be presented in draft form to the Trustees and the Monitoring Board at their April 2009 meeting in London.

### *Strengthening the basis of funding*

As stated above, the Trustees have made significant progress on efforts to build a sustainable basis of funding for the IASC Foundation. The Trustees themselves have no authority to impose funding regimes on countries, but have worked closely with regulatory and other public authorities and key stakeholder groups to create national regimes. The year 2008 saw the implementation of funding systems to support standard-setting activities for the first time. Now throughout the world, levy systems and national contributions through regulatory and standard-setting authorities or stock exchanges are becoming the norm. This is a positive development, which is necessary to ensure the long-term independence of the standard-setting process. A summary of the current funding position appears later in the Annual Report.

The most immediate priority for funding will be moving those countries on a voluntary regime, such as the United States, or those areas yet to participate on an equitable basis. Second, the Trustees will need to consider ways to enable national funding regimes to adjust for approved increases in the IASC Foundation budget. Third, the Trustees will seek to raise funds to support the development of its IFRS XBRL taxonomy. The Trustees have committed the organisation to a leadership role in taxonomy development as way to ensure increased comparability and usability of financial information provided by IFRS reports. The Trustees will be raising these issues with the Monitoring Board.

### **Achieving a single set of standards used worldwide**

The organisation is committed to play a constructive role in restoring confidence to the world's markets. The crisis has demonstrated how interconnected the world's capital markets are. Continued differences in accounting standards offer the opportunity for regulatory arbitrage, impose unnecessary costs on companies required to comply with different accounting requirements, and reduce comparability for investors. The Trustees are pleased that momentum towards a single set of standards continued to advance in 2008, and our objective was endorsed by the G20 heads of state in October.

The publication of roadmaps setting out a pathway toward IFRS adoption in both Japan and the United States, the world's two largest economies that have yet to commit fully to IFRSs, is also an important development. The agreement of both the Japan FSA and the US SEC is another positive signal of their commitment to IFRSs. Indeed, ultimate adoption of IFRSs by those two countries remains an important element of our strategy to make IFRS the global

standard. In this light, the continued convergence work of the IASB with the Japan Accounting Standards Board and the US FASB remains highly relevant.

My fellow Trustees and I understand the unprecedented circumstances facing policymakers today. Our organisation is committed to acting in an urgent and responsible manner to help restore confidence in financial markets. Broad international adoption of IFRSs, combined with the actions that we have taken in 2008 and to which we are committed in 2009, means that the IASC Foundation is taking steps to do its part in the response on financial reporting issues.

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