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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 2B

Meeting the Public Accountability Challenge: 2008 Trustees Oversight Activities Report

At the conclusion of the organisation's first five-yearly Constitution Review completed in 2005 the Trustees recognised then, as they continue to recognise, the need to demonstrate the organisation's public accountability. The Trustees placed particular emphasis on their oversight and engagement with the International Accounting Standards Board (IASB). Accordingly, they created the Due Process Oversight Committee as a standing committee of the Trustees.

The Due Process Oversight Committee is the Trustee committee responsible for both overseeing the IASB's adherence to due process and working with the IASB to enhance that due process and its consultation activities and feedback/report back on an ongoing basis. To fulfill its responsibilities, the Committee carries out its oversight functions by developing proposals and measurement targets regarding oversight responsibilities for consideration by Trustees. The Committee monitors the achievements of these targets and suggests amendments to these targets when appropriate. The Committee also listens to and consults with external stakeholders and takes that input into account in its work.

The Committee also leads the Trustees annual review of their assessment of effectiveness in oversight and priorities in the forthcoming year. This report represents that annual review. In assessing the achievement of these targets, the Committee uses a framework for evaluating the Trustees' effectiveness in carrying out their constitutional responsibilities. This framework document was originally approved in November 2006 and has monitored targets since then. The Trustees report annually on their oversight activities as part of this framework and it is augmented by detailed information on the IASC Foundation Website. In considering how the Trustees demonstrate the organisation's accountability, the Committee pays particular attention to how the Trustees provide evidence of these activities occurring.

Monitoring and Responding to the Financial Crisis

The IASC Foundation and the IASB remained committed to responding in an urgent manner to the ongoing financial crisis. Throughout 2008, policymakers and other interested parties highlighted the part that enhancements in accounting standards could play to ensure an effective response to the crisis. The IASC Foundation and the IASB acted on a number of fronts in response to this crisis – including in areas under the purview of the Due Process Oversight Committee and the Trustees at large.

Throughout the crisis, the Trustees have supported the IASB's efforts to respond in an urgent manner to the unprecedented economic situation. Consistent with the recommendations of the Financial Stability Forum, the IASB decided to forego discussion papers for its projects on consolidation and derecognition to address off-balance sheet items. The IASB also established an Expert Advisory Panel to address valuation techniques in illiquid markets. The trustees have supported these steps and will continue to monitor the IASB's actions in response to the financial crisis.

The Trustees also welcome the commitment of the IASB to work jointly with the US FASB to achieve, through convergence, one globally accepted set of standards. We have seen that the continuing existence of differences – no matter how small or arcane – offers the possibility for regulatory arbitrage. This was highlighted by the issue of the reclassification of certain financial assets in IAS 39, referred to below. This case also highlights the need to reach a single set of high-quality accounting standards.

At the October 2008 Beijing Trustees' meeting, the Trustees took an unprecedented step by allowing the IASB to waive its normally established due process. This came about because the financial crisis drew attention to the differences between IFRSs and US GAAP in a particular area which meant the playing field was perceived not to be sufficiently level. Subsequently, the IASB introduced an amendment permitting reclassification of some financial assets to move to a more level playing field between IFRSs and US GAAP. That decision to suspend due process has been criticised by some, both on the grounds of principle and because of fear of political intervention in the independent standard-setting process. The reality, however, was that the IASB recognised that differences between IFRSs and US GAAP did exist which the unprecedented situation of the third quarter 2008, unless rectified by the IASB, could have led to a key stakeholder, the European Union, introducing its own changes to the standard. The IASB approach, unlike other proposals, provided clear disclosures for investors and avoided derailing momentum towards a single set of standards.

Whilst unprecedented situations require unprecedented actions, the Trustees remain committed to due process.

The Trustees' role in reviewing the IASB's agenda and discussions related to the update of the Memorandum of Understanding with the Financial Accounting Standards Board

Throughout the year, the Trustees reviewed and updated the IASB's commitment in terms of the Memorandum of Understanding (MoU) with FASB. The MoU sets out the work programme that will be required in order to achieve IFRS adoption in many jurisdictions in 2011 and later.

For example, Mexico, India, Korea, Japan and Canada are all expected to change to IFRSs in 2011-2012. Consequently, the IASB is anxious to minimise the changes to IFRSs as much as possible.

The Trustees recognise that the IASB has some ambitious targets under the MoU work plan. Therefore, greater technical resources have been committed to support the IASB's work in 2009 onwards.

The organisation's work to enhance the role and composition of the Standards Advisory Council

Since the mandate of the Standards Advisory Council (SAC) was due to conclude at the end of 2008, the IASC Foundation considered the SAC composition in the first part of the year. The aim of the review was to consider ways in which the effectiveness of the SAC could be improved.

The Trustees concluded that the mandate of the SAC is still sound. The Trustees, however, proposed changes to the membership of the SAC, such that it was composed primarily of representatives of organisations. This change is designed to provide a broader basis for the input to the SAC deliberations that could come from a Council composed purely of individuals. At the same time, there still remains scope for individual appointments. The chairman is to be rotated every three years to provide regional diversity and to keep the leadership invigorated. Given the complexity of seeking global input and the need for regional feedback, two vice chairmen have also been appointed from different regional backgrounds, thereby creating a combined leadership representing diverse regional interests and backgrounds.

It is also recommended that the SAC chairman should consider arranging additional meetings in addition to the plenary sessions held in London. These meetings could extend beyond the SAC members and provide opportunity for multiple contributions, thereby providing enhanced due process.

The Trustees believe that this adaptation of the SAC will enable the IASB to receive views reflecting a wider range of interested parties and would give greater authority to views received and will ultimately enhance due process. The SAC has an important part to play in the effectiveness of the whole organisation.

Liaison with the IASB during 2008

The first joint meeting of the IASB and Due Process Oversight Committee was held in September 2007. It was decided that such joint meetings would be held twice a year thereafter.

The purpose of these meetings is to enhance the oversight review process by direct contact with the IASB. This enables due process issues and improvements to be discussed, and for matters of mutual concern and interest in the standard-setting due process to be aired. The Trustees believe that these meetings additionally provide a useful opportunity for the Trustees and the IASB to co-ordinate their outreach efforts and exchange information to ensure that the Trustees and the IASB are aware of each other's activities. The Committee reports regularly on its work to the Trustees at public meetings.

Review of the IASB Working Groups

The Due Process Oversight Committee initiated a review of the working groups in the third quarter of 2008. In undertaking the review of working group arrangements, the Trustees and the IASB recognised their importance.

The review was undertaken in two parts – a questionnaire survey of all working group members and detailed interviews with the working group chairmen and technical support staff.

The great majority of the working group members responded, which was helpful and insightful. While the concept of using working groups remains well supported, the findings identified a few areas for possible improvement of the process.

The results of the review will be jointly considered with the IASB so as to develop improvements, which will serve to enhance the IASB's due process procedures.

The Trustees greatly appreciate the efforts that the working group members make in assisting the IASB in developing new standards. The Trustees recognise that the working group members are volunteers with busy schedules and as a consequence they want to make the most effective use of their time.

Enhanced performance review of the IASB

In 2008 the Trustees put into place an enhanced performance review procedure for the IASB. This was seen as an important step in the Trustee oversight function. The IASB members have always been subject to individual and peer appraisal. The results of the appraisal are discussed with each IASB member with a view to improve performance. However, in 2008/2009, a further element to performance evaluation has been added. External third parties have been interviewed in order to give greater insight into the perceived effectiveness and performance of the IASB as a body.

The Trustees have been using an external agency with appropriate expertise, Spencer Stuart, to help conduct part of the appraisal process for the IASB.

The Trustees will continue to monitor the effectiveness of the IASB appraisal and review process so as to ensure that it remains relevant and beneficial to both the IASB members and the IASC Foundation.

An assessment of the role of feedback statements and effect analyses

Feedback statements were used for the first time by the IASB in January 2008, with the publication of the revised version of IFRS 3 on *Business Combinations* and the amended version of IAS 27.

A separate document entitled *Project summary, feedback and effect analysis* was prepared to support and aid regulators around the world, following requests for further clarification.

Following the success of the introduction of feedback statements and effect analyses, the IASB amended the Due Process Handbook to make provision for this additional due process step. The purpose of the feedback statement is to explain better to stakeholders and regulators how the IASB developed during due process its thinking, and why it took the decisions it did, including explaining the reasoning on the acceptance or rejection of representations made to it.

The purpose of effect analyses is to ensure that all stakeholders can see transparently the effect of proposals for standards. Stakeholders and commentators had called for both these additions to due process.

Conclusion

The year 2008 has brought increased scrutiny of accounting-standard setters and the standards themselves. The Trustees have responded to input from stakeholders by making constitutional changes and enhancing their oversight activities. The objective is to produce global high quality international accounting standards through enhanced transparency, greater dialogue with stakeholders and enhanced public accountability for the benefit of investors and other market participants.