

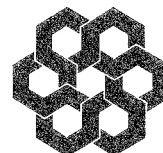


International
Accounting Standards
Board

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Meeting **Standards Advisory
Council**
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Response to the Global Financial Crisis

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**International
Accounting Standards
Committee Foundation®**

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23 January 2009

The Honourable Alejandro Werner
Vice Minister of Finance and Public Credit
Ministry of Finance and Public Credit
United Mexican States
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The Honourable Jörg Asmussen
State Secretary
Federal Ministry of Finance
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Dear Minister Werner and Secretary Asmussen:

On behalf of the Trustees of the International Accounting Standards Committee Foundation (IASCF), I am writing to provide you with an update of our review of the IASC Foundation's governance arrangements. As your letter of 12 January to Sir David Tweedie notes, the Trustees recently met in New Delhi, India, to discuss their Constitutional proposals. At that meeting, we completed the first part of our Constitution Review, which addressed the issue of public accountability (the link to the Monitoring Board) and the composition, geographical diversity, and the size of the International Accounting Standards Board (IASB).

Our Constitutional changes are intended to be significant enhancements 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 shall be publically 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. The proposed Monitoring Board members all also supported the independence of the IASB's decision-making within the new governance framework.

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. In reaching conclusions about the proposals for the first part, we worked closely with a group of public authorities—the International Organization of Securities Commissions (IOSCO), the European Commission, the Japan Financial Services



Messrs. Werner and Asmussen
23 January 2009
Page Two

Agency (FSA), and the US Securities and Exchange Commission (SEC). Those organisations issued in November 2007 a press release regarding the IASCF's public accountability, consistent with the conclusions on public accountability emerging from the Trustees' strategic review during 2007.

We also conducted, in 2008, 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. Stakeholders generally supported the approach on public accountability.

At our meeting in New Delhi on 15 January, the Trustees unanimously decided to approve the necessary Constitutional changes to establish a link to a newly created Monitoring Board. The 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 a formal observer at Monitoring Board meetings. Furthermore, the Trustees approved the text of the Memorandum of Understanding that will govern the relationship between the Trustees and the Monitoring Board.

The responsibilities of the Monitoring Board shall be:

- (a) to participate in the process for appointing Trustees and to approve the appointment of Trustees according to the guidelines set out in the IASC Foundation Constitution.
- (b) to review and provide advice to the Trustees on their fulfilment of the responsibilities set out in IASC Foundation Constitution. The Trustees shall make an annual written report to the Monitoring Board.
- (c) to meet the Trustees or a subgroup of the Trustees at least once annually, and more frequently as appropriate. The Monitoring Board shall 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) about any area of work of either the Trustees or the IASB. These meetings may include discussion of, and any IASC Foundation or IASB proposed resolution of, issues that the Monitoring Board has referred for timely consideration by the IASC Foundation or the IASB.

The Trustees believe that the Monitoring Board arrangement directly addresses the two recommendations cited in your letter and will better permit the IASC Foundation to work with a broad range of economies and other appropriate regulatory bodies. I am attaching the revised Constitution and the text of the Memorandum of Understanding for your information.

The formal process of signing the Memorandum of Understanding is now underway and should be completed in the coming days. This will put the Monitoring Board arrangement formally into effect. It is our expectation that the Trustees will have their first opportunity to meet with the Monitoring Board in early April in London.



Messrs. Werner and Asmussen
23 January 2009
Page Three

In agreeing these proposals, the Trustees are conscious of the ongoing discussions among G20 members and the specific recommendations related to membership in international bodies. The initial membership of the Monitoring Board is as detailed above. It does not preclude the Monitoring Board adding by consensus new members as circumstances dictate. The Monitoring Board would consult with the Trustees about any new Monitoring Board members.

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.

Finally, the Trustees are closely monitoring the IASB's progress on the other recommendations made by the G20. Our organisation is committed to acting in an urgent and responsible manner to help restore confidence in financial markets. I attach a summary of our response to each of the G20 recommendations.

I look forward to answering any further questions that you and your colleagues may have.

Yours sincerely,

Gerrit Zalm
Chairman

Attachments

Strengthening Transparency and Accountability

A comprehensive overview of measures undertaken by the IASC Foundation and the IASB responding to the conclusions reached by the G20 at their summit in Washington DC, USA, 15 November 2008

RECOMMENDATION*	BY DATE	ACTION UNDERWAY	NEXT STEPS
The key global accounting standards bodies should work to enhance guidance for valuation for securities, also taking into account the valuation of complex, illiquid products, especially during times of stress	March 31 2009	<ol style="list-style-type: none"> 1. SEC/FASB issued guidance. 2. On 31 October the IASB issued a staff summary and its expert advisory panel's report on fair value measurement when markets are no longer active. 3. On 15 October the IASB published proposals to improve the information available to investors and others about fair value measurements of financial instruments and liquidity risk. 4. IASB permits reclassifications in some instances. 5. In addition to those improvements, the IASB is developing a standard on fair value measurement 	<ol style="list-style-type: none"> 1. Ensure that any inconsistencies are addressed 2. Complete exposure draft on fair value measurement by second quarter 2009
Accounting standard-setters should significantly advance their work to address weaknesses in accounting and	March 31 2009	<ol style="list-style-type: none"> 1. An exposure draft of the proposed IFRS <i>Consolidated Financial Statements</i>, which includes 	<ol style="list-style-type: none"> 1. Review in a timely manner comments on proposals on financial instrument disclosures.

* http://www.ue2008.fr/webdav/site/PFUE/shared/import/1115_sommet_crise_financiere/declaration_washington_en.pdf

disclosure standards for off-balance sheet vehicles		<p>enhanced disclosures about off-balance sheet risk, was published on 18 December.</p> <ol style="list-style-type: none"> 2. IASB staff have also been developing proposals to improve derecognition requirements, which should be published by the end of the first quarter of 2009. 3. Three joint IASB / FASB round tables took place in November and December in London, Norwalk and Tokyo to identify further issues. The results of those meetings were presented to the Board at its meeting in December. 	<ol style="list-style-type: none"> 2. Derecognition exposure draft planned for the end of the first quarter 2009. 3. The IASB will address issues arising from the global financial crisis round-table meetings.
With a view toward promoting financial stability, the governance of the international accounting standard setting body should be further enhanced, including by undertaking a review of its membership, in particular in order to ensure transparency, accountability, and appropriate relationship between this independent body and the relevant authorities.	March 31 2009	<ol style="list-style-type: none"> 1. Monitoring Board arrangements approved at the Trustees' meeting in Delhi in January, in addition to the accompanying MoU. 2. Constitutional proposal regarding the desirability of geographical diversity for IASB membership approved. 3. The second part of the Constitution Review on a broad range of constitutional issues launched with a discussion document on 8 December. 4. Ongoing discussions between the 	<ol style="list-style-type: none"> 1. First meeting of the Monitoring Board to be arranged in 2nd quarter of 2009. 2. The Trustees will be holding a series of round-table meetings to encourage further debate and comment from stakeholders around the world.

		IASB and the Basel Committee. The Basel Committee to serve as an observer on the Monitoring Board.	
The key global accounting standard-setting bodies should work intensively toward the objective of creating a single high-quality global standard.	Medium term	<ol style="list-style-type: none"> 1. Convergence work underway with United States and Japan. 2. Memorandum of Understanding with the FASB sets out targets, including the development of a common financial instruments standard. 	Continue convergence work.
Regulators, supervisors, and accounting standard-setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards.	Medium term	<ol style="list-style-type: none"> 1. Regular consultation and interpretations processes already in place. 2. Monitoring Board to establish a venue to raise a number of these issues. 3. Discussion about the need for intensified dialogue with Basel Committee and the banking industry. 	<ol style="list-style-type: none"> 1. Participate in FSF efforts on procyclicality. 2. Follow up on discussions with the Basel Committee.
Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate. Regulators should work to ensure that a financial institution's financial statements include a complete, accurate, and timely picture	Medium term	<ol style="list-style-type: none"> 1. On 15 October, the IASB released its proposals to improve financial instrument disclosures related to exposure to risk from off balance sheet items. 2. On 22 December the IASB released proposals clarifying the accounting for embedded derivatives. 3. On 23 December the IASB released 	<ol style="list-style-type: none"> 1. After first meeting of the Financial Crisis Advisory Group, the Advisory Group has scheduled meetings for 13 February (New York), 5 March (New York), and 20 April (London). 2. The Advisory Group will consider issuing an update in advance of the G20 meeting on 2 April.

<p>of the firm's activities (including off balance sheet activities) and are reported on a consistent and regular basis.</p>		<p>proposals to improve the disclosures in relation to investments in debt instruments.</p> <ol style="list-style-type: none"> 4. In addition to those improvements, the IASB is developing a standard on fair value measurement. 5. Major changes in disclosure of off balance sheet items proposed in consolidations exposure draft published on 18 December. 6. Issues of disclosure to be raised with the Financial Crisis Advisory Group. 7. Next steps on IAS 39 replacement under consideration. 8. Financial Crisis Advisory Group (FCAG) established and will report within 4-6 months. 	<ol style="list-style-type: none"> 3. The IASB will consider the comments on the proposals already issued.
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Reinforcing International Cooperation

RECOMMENDATION	BY DATE	ACTION UNDERWAY
Authorities, drawing especially on the work of regulators, should collect information on where convergence in regulatory practices such as accounting standards, auditing, and deposit insurance is making progress, is in need of accelerated progress, or where there may be potential for progress.	Medium term	<ol style="list-style-type: none"><li data-bbox="990 363 1951 432">1. The Trustees will report to the Monitoring Body on the progress of the organisation's efforts.<li data-bbox="990 432 1951 501">2. The IASB will continue to inform the FSF secretariat on progress made related to its convergence programme.