



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

VIA EMAIL:  
[constitutionreview@iasb.org](mailto:constitutionreview@iasb.org)

Mr Gerrit Zalm  
Chairman  
International Accounting Standards  
Committee Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

31 March 2009

**Subject: IASCF Review of the constitution: Identifying issues for Part 2 of the review**

Dear Mr Zalm

The Basel Committee on Banking Supervision (the Committee) welcomes the opportunity to provide our views on the International Accounting Standards Committee Foundation (IASCF) invitation to comment on matters related to the IASCF's Constitution (Constitution). These matters relate to the objectives of your organisation as well as governance and processes related to the IASCF, International Accounting Standards Board (IASB), and the IASB's Standards Advisory Council (SAC).

Rather than answering each of the thirteen specific questions which you have asked, we have focused our comments on issues that have been identified as being of particular importance to the Committee. These include the "fast track" procedure, improved effectiveness of the IASB's SAC and the current required geographic distribution of the Trustees.

Fast Track

→ We appreciate that in cases of great urgency the IASB may need to modify an accounting standard more expediently than through the normal due process, and a "fast track" process may be a good way to address these occasions. If such a procedure is developed, we recommend it include the following elements. The procedure should: 1) be used only in rare circumstances, 2) be temporary (ie until a more rigorously vetted solution has been implemented), 3) include some transparent due process, even if on an accelerated basis, and 4) not result in expedited decisions on issues deserving full-deliberation and due process.

SAC

The IASB's SAC is a key element of the international standard setting process that provides views to the IASB about proposed concepts early in the standard setting process. The Committee appreciates being a part of this forum, particularly with the recently reconstituted SAC. This restructuring allowed for a greater number of individuals from representative organisations. In support of this modified view of participation and to increase the likelihood that the views of all representative organisations can be brought forward at each SAC meeting, we suggest that the IASCF consider removing restrictions for sending a senior alternate representative to meetings. This is particularly important for the representatives of international

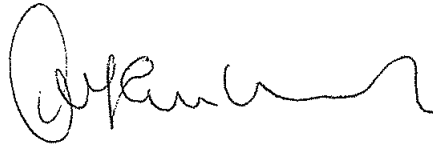
organisations. We understand that this approach is not currently prohibited by the Constitution.

Due to the increased number of jurisdictions adopting International Financial Reporting Standards and the need for greater transparency with regard to the standards setting process, the IASB's interactions with its SAC should become more formalised. For example, summary information could be provided about matters brought forward from the SAC and the responses/views of the IASB regarding those matters.

With broader adoption of IFRS across the world, it may be important for the IASCF to evaluate the current required geographic distribution of Trustees, which is included in paragraph 6 of the Summary of the Constitution, Part A. Specifically, the IASCF may want to consider whether the current required regional distribution is sufficiently diverse to fulfil the duties of the Trustees. While the Constitution does not require a specific regional distribution for the IASB's SAC membership, it may be useful to evaluate this aspect of the SAC in future considerations of its membership.

These views have been prepared by the Committee's Accounting Task Force, chaired by Sylvie Mathérat, Director of the Bank of France, and have been approved by the Committee. The Committee trusts that you will find these views useful and constructive. If you have any questions regarding these views, please feel free to contact Sylvie Mathérat (+33 1 4292 6579) or Xavier-Yves Zanota at the Basel Committee Secretariat (+41 61 280 8613).

Yours sincerely,



Nout Wellink

*Trustee  
Distribution*



EUROPEAN COMMISSION  
Internal Market and Services DG

The Director-General

68

Brussels, 22 JUN 2009 - 139957  
MARKT F3/AD/ab (2009) 145864

Ms. Tamara Oyre  
Assistant Corporate Secretary  
IASC Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**Subject: IASC constitution review – Part II**

Dear Ms. Oyre,

I am writing to inform you about the European Commission's response to the IASC's discussion document concerning Part 2 of the IASC's constitution's review.

This response has been the subject of informal consultations with the European Parliament and with the Member States of the European Union. I would like to recall in this context the European Parliament's Resolution of 24 April 2008<sup>1</sup> and the conclusions agreed by the Economic and Monetary Affairs Council on 8 July 2008,<sup>2</sup> as well as the statement of the G20 Summits held in Washington on 15 November 2008 and London on 2 April 2009. The comments below and in the annex do not prejudge the Commission's position about broader aspects of the IASC's governance or about the specific proposals to be presented at a later stage by the IASC Trustees.

We support the Trustees' recent decisions to in the context of the IASC's current constitutional review, which should however be seen as part of a medium term process to significantly enhance the governance of the IASC. At this stage, there are a number of key issues that should in our view be addressed as part of the second phase of the IASC Constitutional review:

- a key issue arising out the current financial crisis is the **link between accounting standards and the procyclical nature of financial markets**, which has implications for financial stability. We make specific suggestions about this point in the annex;

<sup>1</sup> <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P6-TA-2008-0183+0+DOC+WORD+V0//EN>

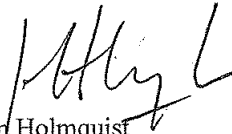
<sup>2</sup> [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ecofin/101742.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/101742.pdf)

- there needs to be greater **transparency about the IASB's agenda-setting**, including by ensuring public consultation and systematically submitting proposed changes to the Board's work programme to the Standards Advisory Council (SAC). Changes to the work programme should be adopted in a consolidated form on an annual basis and much better justification for agenda decisions should be provided. At the same time, some scope should be left for an accelerated procedure in cases of extreme urgency;
- the **effectiveness of the SAC** should be enhanced. The Commission welcomes the recent change to the composition of the SAC. However, the SAC continues to have too many members to function effectively. The SAC's role should be strengthened and its working methods improved (regarding the agenda-setting in particular). Consultation of the SAC about individual IASB projects should demonstrate added value over and above the public consultations that the Board carries out as part of its due process. The SAC's reporting requirements towards the Trustees should be strengthened to allow the latter to better monitor the SAC's effectiveness;
- the IASB's **due process** should be enhanced. The role of effects analyses as a mandatory part of the IASB's due process should be further developed and formalised. The role of field testing could also be developed. A fast-track procedure should nevertheless be foreseen for exceptional situations. Trustees should play a more active role by challenging the way in which the IASB responds to stakeholder input in order to ensure that due process amounts to more than going through the motions of formally applying a series of procedural steps;
- changes to the **terms of service of IASB members** should be adapted by abolishing the possibility to reappoint them for a second term. This would ensure that the Board is responsive to new accounting developments and contemporary business realities. We recognise that a balance needs to be struck between, on the one hand, avoiding excessive turnover that could destabilise the IASB's standard-setting process and, on the other hand, excessively long terms of office that prevent the infusion of new thinking. We make related proposals in the annex;
- the Commission also considers it important to review the **IASCF's funding arrangements**. While the European Commission welcomes the progress achieved by Trustees towards diversifying the IASCF's funding base, some aspects of the IASCF's current funding arrangements still give rise to concerns. In our view, these can only be remedied if the IASCF moves towards non-voluntary, stable and transparent funding arrangements with a broad geographic basis. In line with this objective, the European Union has recently agreed a legal basis that would allow the European Commission to provide a financial contribution towards the IASCF budget, subject to satisfactory progress being made to enhance the IASCF's governance.

Our detailed replies to the questions contained in the IASCF's consultation document are set out in the annex to this letter.

Finally, although we do not cover this issue in more detail in the annex, we consider that the role and procedures of IFRIC in the overall context of the IASB's standard-setting process needs to be enhanced. Overall procedures are too slow and IFRIC therefore does not fully fulfil its role in providing guidance or interpretation of the standards. This raises questions about the effectiveness of IFRIC's due process but may also raise constitutional issues (for example, concerning the transparency of IFRIC's agenda-setting process).

We look forward to commenting on the IASCF's specific proposals in due course. Do not hesitate to contact me if you have any questions about this letter.

  
Jörgen Holmquist

Contact:

Alain Deckers, tel.: +32 2 299 23 48, [alain.deckers@ec.europa.eu](mailto:alain.deckers@ec.europa.eu)

Enclosure: 1

c.c.: Ms. Pervenche Berès MEP, outgoing chair of the European Parliament ECON Committee  
Mr Vittorio GRILLI, Chairman of the Financial Services Committee, Member State representatives in the Accounting Regulatory Committee,  
Mr. Lars SØRENSEN, European Parliament ECON Committee secretariat,  
Mr. Jean-Luc FILIPPINI, Financial Services Committee secretariat



65

Organización Internacional de Comisiones de Valores  
International Organisation of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaçao Internacional das Comissões de Valores

April 9, 2009

Ms. Tamara Oyre  
Assistant Corporate Secretary  
International Accounting Standards Committee Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Via email: [constitutionreview@iasb.org](mailto:constitutionreview@iasb.org)

**RE: Discussion document, Review of the Constitution, Identifying Issues for Part 2 of the Review – December 2008**

Dear Ms. Oyre:

The International Organisation of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding Part 2 of the Review of the IASC Foundation Constitution.

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

We commend the Trustees for completion of the first part of the five-yearly Constitution review in 2008. In particular, we are pleased with the link created between the IASC Foundation and the Monitoring Board and with the occurrence of the inaugural meeting of the Monitoring Board on 1 April 2009. Given the growing role of IFRS throughout the world's capital markets, we are encouraged by the Trustees attentiveness to the current cycle of the Constitutional review.

We have provided responses to selected topics raised by the IASC Foundation in its request for comments. The numbering of the paragraphs below corresponds with the related paragraph within the discussion document.

Calle Oquendo 12  
28006 Madrid  
ESPAÑA  
Tel.: (34.91) 417.55.49 • Fax:  
(34.91) 555.93.68  
[mail@oicv.iosco.org](mailto:mail@oicv.iosco.org)  
• [www.iosco.org](http://www.iosco.org)

1. *Does the emphasis on helping 'participants in the world's capital markets and other users make economic decisions', with consideration of 'the special needs of small and medium-sized entities and emerging economies', remain appropriate?*

The members of Standing Committee No. 1, as representatives of securities regulators of the more developing markets, are supportive of the continued emphasis on helping 'participants in the world's capital markets and other users make economic decisions'. This emphasis is consistent with the objectives of our members' respective regulatory bodies. Given the nature of our markets and our role in capital raising through public markets, we feel that other commenters are better placed to address 'the special needs of small and medium-sized entities and emerging economies'.

2. *Should the Constitution make specific reference to the emphasis on a principle-based approach?*

We observe that including reference to the IASB's approach to standard setting would be defining an attribute of the IASB's "product". The Constitution in paragraph 31 provides the IASB with complete responsibility for technical matters. We believe it reasonable to assume based on this provision of the Constitution that determination of the appropriate attributes of the standards are encompassed within the responsibilities of the IASB. We question whether the Constitution is the appropriate place to make such a statement. In that respect, would the Framework perhaps be a more suitable location?

Further, including reference to a "principles-based approach" would require definition of what that term means. If the Trustees proceed with a proposal, we would think it appropriate to explain the term as our experience indicates variability among different audiences' interpretation of the expression.

Finally, it is not clear to us what the implications are of making or not making such a statement. It would be helpful if, should the Trustees determine it appropriate to develop a proposed amendment to the Constitution in this respect, the proposal would address any existing practice, tendency or behaviour that the Trustees are seeking to address through any proposed changes.

3. *The Trustees and the IASB have limited their focus primarily to financial reporting by private sector companies, primarily because of the need to set clear priorities in the early years of the organisation. The Trustees would appreciate views on this point and indeed on whether the IASB should extend its remit beyond the current focus of the organisation .*

The work of IOSCO relates to financial reporting by publicly listed entities, which are clearly considered in the current focus of the IASB. We note that, with limitations to available resources and in light of its full agenda, the Board will continue to be faced with the need to establish and manage priorities. In particular, the Board has an ambitious agenda with respect to its MOU with the Financial Accounting Standards Board as well as numerous standard setting efforts arising from the financial crisis. Because of this, we question whether this is the appropriate time for the Trustees to consider expanding the focus of the IASB. In the future, should such expansion be proposed by the Trustees, we strongly recommend that any proposal be accompanied by a developed discussion of the costs and benefits of such an expansion at that point in time, the alternative, and why expanding the focus of the organisation is preferable to retaining its current focus.

4. *Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives? If so, should there be any defined limitations?*

We encourage continued outreach with interested parties. We observe that outreach functions create the need for IASB and staff resources to participate. We therefore encourage the Trustees, should they move forward with a proposal regarding collaboration with other organisations, to address the manner in which this would be accomplished effectively. One consideration may be coordination with certain organisations collectively, rather than one-on-one. Finally, we recommend that any proposal be accompanied with a discussion of the costs and benefits associated with closer collaboration with other organisations, and why the Trustees may believe that the current time is the appropriate one for making a change.

8. *The Trustees would welcome comments on the progress and future of the organisation's funding.*

We are encouraged by the Trustees continued efforts to secure financing that is in line with the objectives for the funding system. We believe that a stable and diversified source of funding will promote the independent functioning of the IASB's standard setting.

11. *Should a separate 'fast track' procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a 'fast track' procedure?*

We would anticipate that the frequency of circumstances in which a change to an accounting standard would be of sufficient urgency that it must be resolved without appropriate consideration and consultation with affected constituents as contemplated in the *Due Process Handbook* would be rare, if at all. However, we acknowledge the possibility that unforeseen circumstances may arise requiring emergency attention. In such exceptional cases, we believe that the independent functioning of the standard setter, with reasonable public consultation under the circumstances, would be critical components of any expedited due process. These elements are consistent with statements made by the IOSCO Technical Committee in its 21 October 2008 press release.

Should the Trustees proceed with a proposal to provide for 'fast track' procedures, it is advisable that the proposal address how an individual matter would be evaluated in determining whether it is of sufficient gravity to justify 'fast track' procedures. Absent clear articulation of parameters for eligibility, the Trustees and the Board may find themselves confronted with an unduly large number of items suggested by the IASB's many constituents as warranting 'fast track' attention. Finally, it is worth considering whether the decision to give a matter expedited attention should be subjected to greater oversight, for example through approval of the Board's Trustees.

12. *Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?*

-and-

13. *Are there elements of the terms of reference [for the SAC] that should be changed?*

IOSCO has two members of the SAC and certain other securities regulators participate with the IASB in other capacities. An observation we would like to offer is with respect to feedback to the SAC on resolution of matters on which the SAC is consulted. We believe it would be useful if the SAC meeting agenda were to regularly include a report by the IASB or

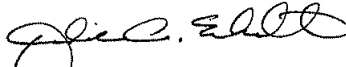


its staff on the disposition of matters by the Board, such that the SAC is aware of how Board decisions compare to views expressed by members of the SAC.

\*\*\*

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at +1 202 551 5300.

Sincerely,



Julie A. Erhardt  
Chair  
IOSCO Standing Committee No. 1