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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 2008¹ and the conclusions agreed by the Economic and Monetary Affairs Council on 8 July 2008,² 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;

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

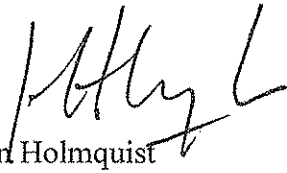
² http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/101742.pdf

- 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

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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