



Review of the Constitution: Public Accountability and the Composition of the IASB

The ABI's response to the IASB's Proposals for Change (July 2008)

Introduction

1. The ABI is the voice of the insurance and investment industry in the UK. Its members constitute over 90 per cent of the insurance market in the UK and 20 per cent across the EU. They control assets equivalent to a quarter of the UK's capital. They are the risk managers of the UK's economy and society. Through the ABI their voice is heard in Government and in public debate on insurance, savings, and investment matters.
2. The ABI is grateful to the International Accounting Standards Committee Foundation (IASCF) for the opportunity to respond to its invitation to comment on its proposals regarding a proposed Monitoring Group and the composition of the International Accounting Standards Board (IASB).

ABI comments

3. We acknowledge the need for IASCF's governance arrangements and the IASB's representation to be reviewed in the light of the greatly increasing global importance of the IASB's standards. We support the aims of the IASCF's proposals to achieve greater accountability, transparency and efficiency. We are concerned, however, that the effect of the IASCF's proposals may be to politicise the IASB's standard setting processes.
4. We do not agree with the IASCF's proposals for the Monitoring Group in equating public accountability with ~~accountability to public authorities~~. If constituted in this way without, in particular, investor representation, the Monitoring Group will not be representative of the IASB's primary ~~stakeholders~~ to whom accountability should be owed. The Monitoring Group's powers accordingly need to be carefully delimited, while accountability to users of accounts and other stakeholders must be achieved in other ways so as to ensure sound overall governance arrangements.
5. Our concern is strengthened on consideration of the proposed role of the Monitoring Group. We would not support the proposals for direct relationships between the Monitoring Group and the IASB Board.
6. We expand on these comments in our responses to the specific questions below and we would be pleased to discuss them.

Questions related to the Monitoring Group

Q1 Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions?

7. We support the creation of a link to a Monitoring Group in order to increase public accountability. However, we do not agree that public accountability only comprises accountability to official institutions. There are significant stakeholders other than governmental and regulatory bodies. Indeed, the IASB itself assumes that the information needs of investors are paramount to its standards. By satisfying the needs of the providers of risk capital, the IASB assumes that it will also meet most of the needs of other users, including those of official institutions.

Q2 The proposals contemplate a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognising that the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group's membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.

8. These eligibility criteria are drawn in a way that excludes many with important interests in the functioning of capital and other financial markets. It is not sufficient that involvement from these interests be through the Standards Advisory Council or through other forms of engagement or liaison with the trustees as proposed in the Discussion Document. The Monitoring Group should promote the representation of users of accounts, particularly investors, as Trustees and through membership of the IASB Board.

Q3 The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRSs to review the Trustees' fulfillment of their constitutional duties. Does the formulation of the Monitoring Group's mandate and the Trustees' reporting responsibilities, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?

9. We note that the IASCF's proposals are not intended to diminish the operational independence of the IASB. However, we are concerned that the effect of giving ultimate accountability only to public authorities, which are inevitably affected by political processes, is to risk the politicisation of the standard setting process.
10. This concern is strengthened on looking at the Monitoring Group's proposed role. Not only would the Group have direct and indirect roles in relation to the appointment of IASCF trustees and IASB Board members, but also it would have authority to refer issues directly to the IASB and to request direct meetings with the

chairman of the IASB, together with the Chairman of the Trustees of the IASCF, to discuss such issues. How these arrangements would work in practice is far from clear. But the potential seems to exist for the operational independence of the IASB to be imperilled, and, accordingly, we would not support these proposals for direct relationships between the Monitoring Group and the IASB Board.

Q4 Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group in the selection of Trustees? If so, what should be the role and composition of the Trustees Appointments Advisory Group?

11. We envisage a continuing need for the Trustees Appointment Advisory Group to facilitate the identification of appropriate stakeholder representatives, including those who are not represented in the Monitoring group.

Questions related to the IASB's composition

Q5 Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy?

12. Whilst we understand that the Board faces increasing pressures on its resources, we are concerned that its expansion may result in it becoming unwieldy and less effective.

Q6 Do you agree with the geographical formulation suggested by the Trustees?

13. We agree with this suggestion.

Q7 The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?

14. We support the proposal, which may help in achieving an improved level of practitioner representation on the Board.

ABI
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