



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chairman

VIA EMAIL: toyre@iasb.org

Ms Tamara Oyre
Assistant Corporate Secretary
IASC Foundation

30 November 2009

Part 2 of the Constitution Review: Proposals for Enhanced Public Accountability

Dear Ms Oyre

The Basel Committee on Banking Supervision welcomes the opportunity to comment on the *Proposals for Enhanced Public Accountability* ("Proposals") issued by the IASC Foundation (IASCF) in September 2009.

The Committee notes that the declaration issued by the G20 Finance Ministers and Central Bank Governors at their 4-5 September 2009 meeting (hereafter the G20 declaration) makes specific reference to the framework of the independent accounting standard-setting process and the constitution review. In particular, the G20 declaration envisions that this review will improve the involvement of stakeholders, including prudential regulators. Our comments below are framed bearing in mind the G20 declaration.

The objectives of the IASCF Proposals are to improve transparency, independence and accountability over standard setting. In particular, the Proposals aim to further enhance the governance arrangements over the international financial reporting standard-setting process. Moreover, they look to improve the involvement of stakeholders with a broad range of perspectives in both developed and emerging markets, as well as to make operational improvements.

The Committee believes that the Proposals are of considerable importance to internationally active banks and their supervisors. This is because a number of countries have adopted, or plan to adopt, international financial reporting standards.

The Committee generally supports the direction of the change in the IASCF's proposals and clarifying amendment but considers further improvements are required. In particular, there remain issues with the Trustee's Oversight function (Question 7) and IASB's agenda-setting process (Question 12) and some of the Proposals in the consultation paper. The Committee's views on these Proposals are set out in Annex 1.

These comments have been prepared by the Committee's Accounting Task Force, chaired by Sylvie Mathérat, Director of the Banque de France, and have been

approved by the Committee. The Committee trusts that you will find its comments useful and constructive. The team that has analysed the Proposals will be pleased to meet with the IASB staff to discuss these comments further.

If you have any questions regarding our comments, please feel free to contact Sylvie Mathérat (+33 1 4292 6579) or Rob Sharma (+41 61 280 8007) at the Basel Committee Secretariat.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Nout Wellink', with a large initial 'N' and a long, flowing tail.

Nout Wellink



Annex 1

Specific answers to questions

Question 4: Reflecting the role of the Monitoring Board

The Trustees seek views on the proposal to amend section 3 of the Constitution as follows:

The governance of the IFRS Foundation shall primarily rest with the Trustees and such other governing organs as may be appointed by the Trustees in accordance with the provisions of this Constitution. A Monitoring Board (described further in sections 18-23) shall provide a formal link between the Trustees and public authorities. The Trustees shall use their best endeavours to ensure that the requirements of this Constitution are observed; however, they may make minor variations in the interest of feasibility of operation if such variations are agreed by 75 per cent of the Trustees.

Do you support this clarifying amendment?

We support this clarifying amendment. A Monitoring Board, with its oversight function, should protect and advance the public interest by ensuring the public accountability of the IASCF. Furthermore, we believe that the accountability linkage between the Trustees and the Monitoring Board should be incorporated and explained in the revised Constitution.

The Committee agrees with the IASCF that the Constitution of the Foundation is not the appropriate document in which to describe the role, missions and composition of the Monitoring Board, which is an independent organisation that has developed its own Charter.

However, we support the calls to enlarge the composition of the Monitoring Board to enhance its representativeness. For example, the declaration issued by the G20 Finance Ministers and Central Bank Governors at their meeting on 4-5 September 2009 stated that the IASCF's "*constitutional review should improve the involvement of stakeholders, including prudential regulators and the emerging markets.*"

The Basel Committee on Banking Supervision has recently enlarged its membership to reinforce its status as a representative body of major supervisory authorities from around the globe. Therefore, we strongly advocate the participation of the Committee as a full member as this would be valuable to the Monitoring Board.

Question 7: Trustees' oversight function

The Trustees seek views on the proposal to make no specific amendments to sections 13 and 15, but to address the valid and important concerns raised by commentators by way of enhanced accountability, consultation, reporting and ongoing internal due process.

The Committee believes that the role of the Trustees in monitoring the IASB should be strengthened. This may require specific amendments to sections 13 and 15.

The Trustees should ensure that due process is followed with respect to all aspects of standard setting. Areas where due process needs to be followed include comments on consultation documents, independent research commissioned by the IASB (with or without national standard setters), field testing, and assessing feasibility of proposals. It should also include considering the likely benefits of IASB proposals to users of accounts in relation to the estimated costs of implementation.

The Committee acknowledges the creation of the Due Process Oversight Committee (DPOC), and considers this development to be an important step toward greater accountability of the IASB. The Committee recommends including the creation of the DPOC and detailing its responsibilities in the Constitution, as the DPOC will be instrumental in enhancing the accountability of the IASB.

Question 8: Expanding IASB's liaison with other organisations

Section 28 would be amended as follows:

The IFRS Board will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies with an interest in standard-setting in order to assist in the development of IFRSs and to promote the convergence of national accounting standards and IFRSs.

Do you support the changes aimed at encouraging liaison with a broad range of official organisations with an interest in accounting standard-setting.

The Committee supports this amendment as it emphasises the benefits of liaising with organisations pursuing similar objectives. This includes the Basel Committee on Banking Supervision when the IASB's activities relate to banks. Liaison with other stakeholders such as the International Auditing and Assurance Standards Board (IAASB) would also be valuable. The liaison could take place through formal and informal mechanisms.

Question 10: The Length of the IFRS Board members' terms

The Trustees seek views on the proposal to amend section 31 to allow for altered terms of appointment for IASB members appointed after 2 July 2009.

The proposed amendment is to allow for Board members to be appointed initially for a term of five years, with the option for renewal for a further three-year term. This will not apply to the Chairman and Vice-Chairman, who may be appointed for a second-five-year term. The Chairman or Vice-Chairman may not serve for longer than ten consecutive years.

The proposed amendments to section 31 are as follows:

Members of the IFRS Board appointed before 2 July 2009 shall be appointed for a term up to five years, renewable once for a further term of five years. Members of the IFRS Board appointed after 2 July 2009 shall be appointed initially for a term up to five years. Terms are renewable once for a further term of three years, with the exception of the Chairman and a Vice-Chairman. The Chairman and a Vice-Chairman may serve a second term of five years, but may not exceed ten years in total length of service as a member of the IFRS Board.

The Committee believes the proposal to limit the second term to three years is appropriate for IASB members. The terms proposed for the Chairman and a Vice Chairman are also appropriate as this ensures continuity with standard-setting.

A quicker rotation of IASB members than the proposed maximum (eight year term) might be detrimental to the quality of the standards as there is a lead time associated with learning about the standard-setting process. However, the Committee acknowledges that an infusion of new experience and practical knowledge within the IASB is necessary for high quality standard setting. As a possible way forward, we suggest that the Trustees consider the length of an average project or future projects on the agenda when determining the length of new IFRS Board members' terms. This would ensure that there is sufficient continuity to mitigate redundancy in project management (ie re-deliberating issues for which decisions were reached by previous IASB members).

Question 11: Accelerated Due Process

The Trustees seek views on the proposal to insert in section 37 (to become section 38) of the Constitution an additional subsection as follows to allow the Trustees in exceptional circumstances, to authorise a shorter due process period. Authority would be given only after the IASB has made a formal request; the due process periods could be reduced but never dispensed with completely.

The IFRS Board shall:

(c) in exceptional circumstances, and only after formally requesting and receiving prior approval from the Trustees, reduce, but not eliminate, the period of public comment on an exposure draft below that described as the minimum in the Due Process Handbook.

The Committee believes that obtaining a wide range of views from interested parties is critical to developing a single set of high quality, understandable and enforceable global accounting standards. Public comment is needed to gain a better understanding of different accounting alternatives and the potential impacts of proposals. Abbreviated comment periods undermine the ability of interested parties to provide thoughtful feedback and therefore limit the input received by the IASB.

Even so, the Committee supports the possibility of having an accelerated due process, with prior approval from the Trustees, provided that a minimum consultation period of 30 days is generally maintained. The Committee recommends that this minimum 30-day consultation period be specified in the Constitution. We also agree with the inclusion of language in proposed section 37 stressing that the accelerated due process should only be envisaged in exceptional circumstances.

Question 12: IASB's agenda-setting process

The Trustees seek views on the proposal to amend section 37(d) (to become section 38) of the Constitution as follows to expressly provide that the IASB must consult Trustees and the SAC when developing its technical agenda.

The IFRS Board shall:

(d) have full discretion in developing and pursuing the technical agenda of the IFRS Board after consulting the Trustees (consistently with section 15(c)) and the SAC (consistently with section 44(a)), and over project assignments on technical matters: in organising the conduct of its work, the IFRS Board may outsource detailed research or other work to national standard-setters or other organisations;

The Committee welcomes the proposal to improve the transparency of the Board's agenda-setting process and the requirement to consult with the Trustees and the Standards Advisory Council (SAC). With broad membership and a wide range of experience, the SAC is a valuable resource to assist the IASB in developing its technical agenda and work programme. The role of the SAC should be strengthened, and the accountability of and reporting by the IASB to the SAC should be required as soon as practicable.

However, section 37(d) as proposed is not complete. It only focuses on the consultation aspect from the IASB to the Trustees and the SAC. It does not provide for any feedback from the IASB to the Trustees and SAC members on items accepted (or not accepted) for the active agenda.

The IASB should provide regular feedback to the Trustees and to the SAC, who should actively monitor this information, so that stakeholders can assure themselves that the standard-setting agenda continues to be relevant to them. Accordingly, the Committee recommends that a feedback and accountability mechanism should be added into the revised Constitution at the earliest available opportunity. Furthermore, the Monitoring Board should ensure that the Trustees carry out their role effectively regarding agenda-setting.

The IASB and the IASCF could consider using a model used by other standard-setters when developing an effective feedback mechanism. For example, the model used by the IAASB's Consultative Advisory Group has worked well in practice and could be a useful starting point for the IASB and IASCF feedback process.

The IAASB's current practice is to establish a strategy and workplan once every three years. The plan is established after a proper due process that allows all stakeholders to be involved. The plan is consulted upon with a formal mechanism for exposure and a comment period. Feedback is also provided to the IAASB's stakeholders explaining why certain issues or topics are not part of the plan.

At a minimum, we would recommend that the IASB have a formal consultation with stakeholders (through a paper published for public comment) on its agenda, at regular intervals (perhaps every two years). This formal consultation should be followed by an effective feedback mechanism.