FINANCIAL ACCOUNTING FOUNDATION
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February 24, 2011

Trustees of the IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: **IFRS Foundation Consultation Document: Status of Trustees' Strategy Review**

To the Board of Trustees of the IFRS Foundation:

The Financial Accounting Foundation (FAF) and the Financial Accounting Standards Board (FASB) value our interactions, formal and informal, with the IFRS Foundation and the International Accounting Standards Board (IASB), with the opportunity to share views on a regular basis. That said, we also appreciate the opportunity in this brief letter to provide our views on several of the key issues with respect to mission, governance, and process raised in the paper the IFRS Foundation Trustees (the Trustees) issued on November 5, 2010, entitled *Status of the Trustees' Strategy Review* (*Strategy Review*).

The mission of the FASB, undertaken with oversight by the FAF Board of Trustees, is to establish and improve standards of financial accounting and reporting that foster financial reporting by U.S. nongovernmental entities that provides decision-useful information to investors and other users of financial reports. As is the case with the IASB, the mission is accomplished through a comprehensive and independent process that encourages broad participation and objectively considers all stakeholder views.

With respect to the questions posed in the *Strategy Review*, we offer the following comments:

Mission: how should the organization best define the public interest to which it is committed?

We believe the objective in the existing IFRS Foundation Constitution, as set forth in the *Strategy Review*, appropriately defines the public interest to which the organization should be committed. High quality financial reporting is in the public interest; it enhances the efficiency of capital markets by giving investors the relevant and faithfully represented financial information they need to make resource allocation decisions with confidence.

Moreover, the organization's objective is consistent with the objective of general purpose financial reporting in the conceptual framework of the International Accounting Standards Board. That defined objective—to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity—was the result of the recently completed first phase of a joint project to improve and converge the FASB and IASB's (the boards) conceptual frameworks.

The *Strategy Review* asks to what extent financial reporting standards and other public policy concerns, particularly financial stability requirements, should be reconciled. We believe that the financial information needs of investors, lenders, and other creditors can and often do overlap with those of policy makers. As a result, general purpose financial reports designed to meet the needs of capital providers will invariably be a valuable and efficient information source for prudential regulators and other policy makers. As it relates to their specific mandates, regulators have the ability to obtain any other information they might need for monitoring stability directly from the entities they regulate. In any case, we believe that the objective of accounting standards is and must remain clear. We see no reason to design general purpose financial reports for reasons other than to provide information that is useful to present and potential investors, lenders, and other creditors. It is in providing information that is useful to investors in allocating capital that accounting standards contribute to a more stable and prosperous economy.

In their joint conceptual framework project, the boards specifically considered whether financial stability should be an additional objective of financial reporting. The boards concluded it should not. Meeting a financial stability objective might, for example, require that entities either not report certain information or delay reporting that information, potentially depriving investors, lenders, and other creditors of critical information. Such a result would be inconsistent with the standards setter's basic mission of serving the information needs of capital markets. The boards also noted that providing relevant and faithfully represented financial information can contribute to users' confidence in the information and, thus, contribute to financial stability.

Governance: how should the organization best balance independence with accountability?

We believe independence and accountability are complementary concepts; there is no need to balance them in the sense of trading off aspects of one for the other.

Independence is essential because it supports the function of objectivity in standards setting: serving the public interest rather than the objectives of private or special interest groups. Independence is a privilege that is continuously earned by fulfilling the organization's public interest role of setting standards that provide market participants with relevant and faithfully represented financial information. Accountability is essential to the preservation of independence; it is the mechanism that gives the investors, lenders and other creditors, and regulators confidence that the standards setter will fulfill that role.

A standards setter should hold itself accountable for achieving its mission by, for example, providing transparency into its process, communicating how stakeholder views were considered, and by reviewing, post-issuance, the efficacy of its standards. But that is not enough. To earn the confidence of investors, lenders and other creditors, and regulators, the standards setting oversight structure should include mechanisms to independently evaluate the standards setter's progress in achieving its mission and take corrective action as necessary.

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Process: how should the organization best ensure that its standards are high quality, meet the requirements of a well functioning capital market, and are implemented consistently across the world?

We identified several steps that a standards setter should take to ensure its standards are high quality and describe them in the paragraphs that follow.

Although the organizational objective refers to 'high quality standards,' that term does not appear to be well-defined nor does there appear to be broad consensus as to its meaning. Recognizing the subjectivity involved, in our view, defining that term would contribute to the quality of the financial reporting standards by:

- Facilitating more effective communication within the IASB and between the IASB and its stakeholders, and

- Providing Trustees, other monitoring bodies, and stakeholders generally an objective basis for evaluating the quality of IFRS (an essential element of accountability).

For example, high quality standards might be defined as those that are consistent with an underlying conceptual framework, enhance comparability and consistency by avoiding or minimizing alternative accounting treatments, and set forth objectives and principles in clear, unambiguous, and understandable language.

In that regard, we believe that timely completion of the conceptual framework project should be an important priority. The IASB's framework is missing important pieces (as is the FASB's), such as frameworks for measurement and disclosure which, when completed, should help the board develop higher quality and more internally consistent standards that would contribute to the comparability of financial reporting.

In our view, financial reporting standards gain both quality and acceptability when they are developed through a transparent and rigorous process that encourages broad-based stakeholder engagement and input. To foster timely completion of necessary improvements to financial reporting standards, a rigorous process also should include setting reasonable target completion dates. Our experience shows that project timelines should not be so rigid that they sacrifice the quality of due process (particularly sufficient time for stakeholders to evaluate and comment on proposals) solely to meet a particular target date. An important role of the standards setting oversight function is to hold the standards setter accountable for appropriately managing the natural tension that exists between making timely improvements and engaging in a thorough and robust due process.

Comment on the IFRS Foundation Strategy Review
From the Financial Accounting Foundation and the Financial Accounting Standards Board
February 24, 2011

The *Strategy Review* also asks how the organization can best ensure its standards are applied consistently around the world.

Consistent application of standards is necessary if we are to achieve the goal of high quality, internationally comparable financial information. Accounting standards are necessary, but alone are not sufficient to achieve consistent application. These standards also must be implemented within the context of robust and cooperative regulatory, enforcement, and governance regimes focused on the needs of investors and other key users of financial information; high quality global auditing standards, including independence requirements; and systems for training and educating practitioners and market participants.

Although the accounting standards setter cannot unilaterally ensure that the standards are implemented consistently around the world, it can take several actions to promote consistency, such as:

- Maintaining standards that include objectives and principles that are communicated in clear and unambiguous language, minimizing exceptions or alternative accounting treatments, and providing sufficient application guidance to facilitate faithful application around the world,

- Maintaining mechanisms for timely identification of application inconsistencies, such as proactive monitoring of IFRS application and ongoing communications with auditors, regulators, national standards setters, and users, and

- Maintaining an interpretations infrastructure that will resolve implementation inconsistencies and emerging issues on a timely basis.

We hope that you find our comments helpful and we look forward to continuing discussions among our standard-setting boards and Boards of Trustees about these and other important issues.

Respectfully,

John J. Brennan, Chairman
Financial Accounting Foundation

Leslie F. Seidman, Chairman
Financial Accounting Standards Board