

30 November 2009

International Accounting Standards Committee  
Foundation  
30 Cannon Street,  
London EC4M 3XH  
United Kingdom

Tower 42  
25 Old Broad Street  
London EC2N 1HQ  
United Kingdom  
t + 44 (0) 20 7382 1770  
f + 44 (0) 20 7382 1771  
[www.c-ebs.org](http://www.c-ebs.org)

Dear Madam, dear Sir,

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

The Committee of European Banking Supervisors (CEBS), comprised of high level representatives from banking supervisory authorities and central banks of the European Union, welcomes the opportunity to comment on the second part of the Constitution Review: Proposals for Enhanced Public accountability.

Banking supervisory authorities and central banks have a strong interest in promoting sound and high quality accounting and disclosure standards for the banking and financial industry. Therefore, CEBS attaches a great importance to the governance and functioning of the institutions parties to the standard setting process.

CEBS thus welcomes the IASCF's efforts to address the issue of enhancing public accountability by, notably, revisiting the role assigned to the Monitoring Board, the Trustees and the SAC along with further amendments to governance over the international accounting standard setting process.

We nonetheless have some remaining concerns that the proposals are not far-reaching enough to ensure that the Trustees, the Monitoring Board and the SAC effectively exert their respective monitoring roles, notably with regards to the IASB's agenda. CEBS also realises that the proposed changes may affect the demand for resources, hence encourage the IASCF to consider the ongoing importance of securing appropriate funding.

We propose additional suggestions in our detailed response in order to enhance even further the functioning of these institutions.

The comments put forward in this letter and in the related appendix have been coordinated by CEBS's Expert Group on Financial Information (EGFI) chaired by Mr. Didier Elbaum (Deputy Secretary General, Commission Bancaire) - in charge of monitoring any developments in the accounting area and of preparing related CEBS positions. If you have any questions regarding our comments, please feel free to contact Mr. Elbaum (+33.1.4292.5801).

Yours sincerely,



Chairman  
Committee of European Banking Supervisors

## **APPENDIX**

### **Question 4**

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

**The governance of the IASC 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 are empowered to may make minor variations in the interest of feasibility of operation if such variations are agreed by 75 per cent of all the Trustees.**

**Do you support this clarifying amendment?**

We support this amendment clarifying the interaction between the Monitoring Board and the Trustees.

However, we consider that one of the major tasks of the Monitoring Board - consistent with its role of providing a formal link between the IASB and public authorities - is to exchange views with the Trustees on issues regarding public interest, including the IASB agenda. The current amendment of paragraph 3 of the Constitution may not be sufficient to convey the importance of this specific role of the Monitoring Board. More specifically, we would favour more frequent meetings to ensure effective exchanges of views.

Another issue is the composition of the Monitoring Board which appears restricted and mainly limited to investor representatives. We believe that its composition has to be more diverse in order to achieve appropriate representation of the diversity of public authorities that have an interest in standard setting. Notably banking supervisors, who are directly concerned with market stability, should be part of this committee, as voting members.

Lastly, we welcome the intention to develop a separate document detailing the operating procedures of the Monitoring Board. We see this as a positive initiative. We would encourage the Foundation to develop this document as soon as possible, to ensure that the Monitoring Board functions effectively and transparently.

### **Question 5**

**The Trustees seek views on the proposal to amend section 6 of the Constitution to include one Trustee from each of Africa and South America.**

We agree with the Board's proposal to include Trustees from Africa and South America.

However, we would like to reiterate our comments that countries applying the IFRS should be better represented among the Trustees. We believe that giving emphasis to countries or geographical zones that have decided to implement

IFRS would foster the development of global standards in the public interest and incentivise non-IFRS appliers to participate in convergence efforts. We trust that appropriate representation of IFRS appliers and different accounting traditions will attract wider support for the IASB, ensure sufficient adherence of jurisdictions applying the IFRSs and lead to less controversial implementation of the standards.

### **Question 7**

**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 improvements.**

We are not convinced regarding the Trustees' decision to make no specific amendments to the Constitution, on the ground that its current wording is sufficient for the Trustees to adequately exert their oversight role.

We consider that the way oversight is exerted, notably with regards to the standard setting process as well as to how comments to documents issued by the IASB have been taken into account, is crucial to the acceptance of IFRSs. With this in mind, we believe that there are advantages to including more detail in the Constitution on how this oversight should be exercised, so as to increase the transparency of the Trustees' oversight activities.

In particular, we believe that the Trustees, along with the Monitoring Board, should be involved in the decision making process in a more active way than currently described in the Constitution. They should oversee how the IASB has taken into consideration the comments received during public consultation. In particular they should ensure that the IASB provides feedback to constituents about how it used the comments, not only where the Board accepts arguments made, but also, just as importantly, why it does not accept the points made by who disagree with the proposals.

### **Question 8**

**Section 28 would be amended as follows:**

**The IASB IFRS Board will, in consultation with the Trustees, be expected to establish and maintain liaison with national standard-setters and other official bodies concerned 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 International Accounting Standards and International Financial Reporting Standards IFRSs.**

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

We agree with this amendment as the implication of a wider panel of actors is essential to enhance the legitimacy of accounting rules. This liaison could take place through formal and informal mechanisms.

We understand that banking supervisors, and notably CEBS as a body representing European banking supervisors, are among those groups; these relationships are particularly important with regards to the connection between accounting issues and prudential regulations.

Also it may aid transparency for the IASB to publicise the list of the groups it intends to meet, as part of the standard setting process, as well as the frequency and issues on the agenda at such meetings.

#### **Question 10**

**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 IASB IFRS Board appointed before 2 July 2009 shall be appointed for a term of 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 of 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.**

**Do you support the change in proposed term lengths?**

We understand the need for both new and accrued experience within the Board, and support the proposed change. At the same time we wonder whether this amendment should not also apply to the IASB's Chairman and Vice-Chairmen. Although it could be argued that for the Chairman and Vice-Chairman different terms could be appropriate to ensure continuity with standard-setting, there is also a need for new and accrued experience at Chairmanship level. For that reason we suggest that the Trustees consider this issue further.

#### **Question 11**

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

We agree with the proposal.

It could be useful to mention that the IAASB faces a similar issue, known as 'Responding to Emerging and Urgent Issues'. The IAASB Staff has identified five general components of a framework for responding to emerging or urgent issues that, in the context of the IASB, could be adapted as follows:

- the Board should establish a team of members charged with evaluating urgent issues and developing recommendations for consideration by the Board;
- criteria should be established against which a decision on the need for a rapid response is made and evaluated;
- the Board should seek approval from the Trustees/Monitoring Board that such criteria have been met in principle in advance;
- there should be clear minimum requirements for all due process;
- the Trustees/Monitoring Board should confirm that the modified due process has been followed; and
- a description should be provided in advance of the circumstances in which the "emergency procedure" could be used, in such a way that ensures that these occasions are exceptional and rare.

### **Question 12**

**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 the Trustees and the SAC when developing its technical agenda.**

**The IASB IFRS Board shall:**

**(c)(d) have full discretion in developing and pursuing the technical agenda of the IASB 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 IASB IFRS Board may outsource detailed research or other work to national standard-setters or other organisations;**

CEBS considers that setting the agenda is one of the crucial decisions that the IASB has to make. We therefore support the initiative to improve the mechanism of the Board's agenda-setting process with the consultation of the Trustees and the SAC. It is of the utmost importance that the process be as transparent as possible. Therefore, there is a need for, for example, a clear feedback procedure between the IASB and the Trustees and the SAC. Considering the importance of the matter, there should be a reference to this essential feedback in the Constitution.

Given that the consequences of decisions on the agenda will have consequences as to the acceptability of IFRS in various jurisdictions, there is a need for the involvement of the Monitoring Board in the agenda-setting process. Again, this should be duly stated in the Constitution.

We do not believe that the involvement of the Trustees, the SAC and the Monitoring Board would be prejudicial to the independence of the IASB. On the contrary, a full due process around the decisions related to the agenda would increase the transparency of the IASB's due process.

We believe that there could be benefits to a formal public consultation on the IASB's technical agenda, at regular intervals (followed by an effective feedback mechanism)

### **Question 13**

**Trustees seek views on the proposal to make no amendment to sections 44 and 45 (renumbered as 45 and 46), which are the provisions relating to the SAC, at this time.**

The recent recomposition of the SAC should help to enhance its efficiency. We would like to insist on the need for focused public documents to be provided for the SAC if it is to exert its role effectively, as well as the importance of the advice it may give on the IASB agenda.