

24 February 2011

To the Trustees of the
IFRS Foundation

strategyreview-comm@ifrs.org

Tower 42
25 Old Broad Street
London EC2N 1HQ
United Kingdom

t + 44 (0) 20 7382 1770
f + 44 (0) 20 7382 1771

www.eba.europa.eu

Dear Madam, dear Sir,

IFRS Foundation public consultation paper Status of Trustees' Strategy Review

The European Banking Authority (EBA), which has come into being as of 1 January 2011, welcomes the opportunity to comment on the IFRS Foundation public consultation paper Status of Trustees' Strategy Review.

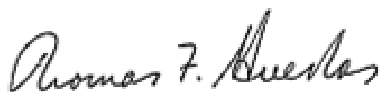
The EBA has a strong interest in promoting sound and high quality accounting and disclosure standards for the banking and financial industry, as well as transparent and comparable financial statements that would strengthen market discipline.

The EBA generally supports the mission statement but is of the view that financial stability considerations should be given appropriate weight in standard setting. A wider engagement of authorities that are tasked with contributing to financial stability in standard setting as well as a strengthening of the governance structure as such could be instrumental in achieving this objective. Our views on the consultation paper are set out in more detail in the appendix hereafter.

We note that the Monitoring Board of the IFRS Foundation is currently in the process of reviewing the governance structure of the IFRS Foundation including the Monitoring Board itself. Our comments made in the present letter should however not be seen to pre-empt our views on the proposals put forward in the context of the related public consultation or prevent us from making additional comments.

If you have any questions regarding our comments, please feel free to contact Mr. Elbaum (+33.1.4292.5801) in his capacity as Chairman of the EBA Expert Group in charge of monitoring developments in the accounting area or Mr. Colinet (+ 32.2.220.5247) in his capacity as Chairman of the technical group that coordinated this comment letter.

Yours sincerely,



Thomas Huertas
Alternate Chair, European Banking Authority

Appendix

Detailed EBA comments on the IFRS Foundation public consultation paper Status of Trustees' Strategy Review

Mission: How should the organisation best define the public interest to which it is committed?

1. The current Constitution states, "These standards [IFRSs] should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions." Should this objective be subject to revision?

2. The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?

In most circumstances, financial reporting and financial stability considerations are in line. Both are best served by providing transparent, comparable, reliable and relevant information to all stakeholders (such as investors, depositors, regulators, the public). However, tensions between transparency and financial stability, may arise at least in the short term in crisis situations.

Adequate financial reporting standards represent a key contributing factor to restoring market confidence. Especially the financial crisis has shown the importance of appropriate financial reporting and highlighted accounting and disclosures as important contributing factors to market confidence.

While the EBA generally supports the current mission statement focusing on decision-relevant information for investors and other users of financial information, we believe that financial stability considerations should be given appropriate weight in standard setting. In our view this is best achieved through wider engagement of financial stability authorities in standard setting.

It could also be foreseen to include an explicit reference to the impact on financial stability in the organisation's framework (in particular in objectives and qualitative characteristics of financial reporting) or in its constitution as one of the aspects that must be considered when developing accounting standards. At least, the impact of new or modified accounting standards on financial stability –should be assessed and minimised.

Other ways to enhance the recognition of financial stability could be achieved through the following:

- The enhanced dialogue between the IASB and the FSB and prudential regulators put in place during the crisis, should be continued on a more structured basis.

- The IASB should undertake market-failure analysis – to establish whether the existence of externalities leads to inefficient outcomes - ahead of beginning work on major proposed new standards, and cost-benefit analysis during their development. This would highlight (amongst other things) material financial stability issues.
- In addition, field testing should be used before the introduction of a new accounting standard together with ex-post analyses in order to evaluate or assess the effects on financial stability as a whole.
- Sufficient detailed attention being given to those areas of accounting with the most impact on financial stability (e.g. financial instruments, scope of consolidation).

However, we recognise that where both perspectives are difficult to reconcile to a significant extent, it probably indicates that further analysis and consultation are needed so as to make sure that there is sufficient awareness of the difficulty and that high consensus exists around decisions taken.

As discussed in more detail below, increased involvement of regulators and supervisors in the governance structure should also be considered.

Governance: How should the organisation best balance independence with accountability?

3. The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?

4. Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body. Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities)?

Generally speaking, we support the three-tier governance structure. However, for reasons set out below, we believe that the role of the most senior tier ensuring proper accountability to public authorities could be best assumed by a publicly and politically legitimated oversight body (as further discussed below).

In the EBA's view, a body like the Financial Stability Board (FSB) could be a natural candidate for this purpose not only because of its geographic reach, covering all the main users of international accounting and auditing standards, but also because it is reflecting the different financial regulatory disciplines that have the most interest in the substance of the standards.

The fact that the FSB includes governments as well as central banks and regulators and ultimately reports to the G20 means that it can bring the political legitimacy which is currently lacking in the existing arrangements. In fact, a role in governing standards setters is already foreseen in the

FSB's Charter which states that the FSB shall, "undertake joint strategic reviews of the policy development work of the international standard-setting bodies to ensure their work is timely, coordinated, focused on priorities and addressing gaps."¹

Furthermore, this mechanism could also be used to exploring synergies that could be brought about by merging the Monitoring Board of the IASB and the Monitoring Group of the IAASB.

Irrespectively, the Monitoring Board should improve its transparency and effectiveness. It is currently too opaque, which is inconsistent with a standard setting body that demonstrates a high degree of transparency. Effectiveness of the Monitoring Board should be subject to periodic review.

Irrespective of whether the FSB is chosen as the body ensuring proper accountability to public authorities, the membership of the Monitoring Board should be extended by including more voting members from the banking supervision sphere. The composition criteria should obviously respect a geographical balance although they should also adequately involve representatives of countries / regions that are users of IFRS. In addition, it could be further considered to increase the involvement of bodies with international / regional mandates and/or with wider public policy objectives (such as multinational supervisory bodies).

The Monitoring Board should be a real oversight body mandated by a public international organisation that represents both users and non-users. The Monitoring Board should have a role in the appointment of Board members, the approval of the conceptual framework and of strategic orientations (with due consideration of the impact of the latter on the IASB's agenda).

The Trustees' role should primarily be oversight of the operating, financing and administrative arrangements within the IFRS Foundation (as opposed to an advocacy role played in the past).

Stable and diversified funding (based on a mandatory contribution from companies and the public sector) will also contribute to the independence of the organisation. This is explored in our response to question 7 below.

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

5. Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work program?

6. Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?

¹ FSB Charter, Article 2 (1) (e)

Whilst independence in standard-setting is critical, the IASB's agenda setting process should be more consultative. Accordingly, we welcome that the IASB has now committed to consult on its agenda.

The IASB has engaged widely with stakeholders. This should be further developed using a more structured basis.

The IASB's agenda has been extremely congested recently; even though some projects have been postponed, it is still not clear that sufficient time and resources are available to complete all projects by the currently foreseen deadlines. This may be improved by enhancing the engagement with stakeholders during the agenda setting process.

Other possible improvements regarding process include:

- Greater consideration of the number of new proposals that preparers can reasonably absorb within certain time frames.
- Sufficient allocation of resources to meet market participants, especially prior to developing EDs, in order to assess the need for new proposals and their scope, and to prepare market failure and cost-benefit analyses.
- Setting clear criteria for re-exposure of EDs.
- Involvement of the oversight body (or bodies) in the setting of the IASB agenda and strategic orientations and of the conceptual framework.

Furthermore, the EBA believes that, post-2011, there should be a period of calm and stability in accounting standards. The IASB's role is to produce standards and adequate application guidance. In doing so, the IASB should give proper consideration to the number of proposals being published within relative short spaces of time. An overload of new accounting standards could affect the proper implementation of standards by preparers. We welcomed the opportunity to respond to the recent request for views on effective dates and implementation methods.

Preparers will face significant changes when they implement all the new standards that the IASB is currently developing, and so the implementation process will inevitably reveal issues that the IASB will need to consider (especially given that they have completed many of the projects on a rather compressed timescale). The increase in countries adopting IFRS could exacerbate these pressures. We would encourage the Foundation to ensure that the IASB's (and IFRIC's) agenda allows sufficient time and resources to deal with these issues.

Financing: How should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?

7. Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?

Our view is that financing should be organised in such a way that independence of standard setting is ensured and that a secure, stable funding mechanism is in the interest of the IASB carrying out its agenda (as well as being an important factor in the US adopting IFRS). We believe

that this requires funding to be non-voluntary for those jurisdictions that apply IFRS or are in the process of converging. However, jurisdictions should retain some flexibility in determining the mechanism for collection.

Whether funding should be linked to participation in the governance is a matter that has to be further considered, as the involvement of non-users may lead to further convergence with and adoption of IFRS. At the same time, the funding by non-users should not pose a threat to the independence of the IFRS Foundation and its governing bodies. Similarly it needs to be further considered whether participation in the governance should be linked to a commitment to adopt IFRS. While this is an interesting idea, there might be a trade-off in the sense that non-users would be deterred, with the possible result of widening the gap between IFRS and other accounting frameworks.

Other issues

<i>8. Are there any other issues that the Trustees should consider?</i>

No further issues to be raised at this stage.