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Dear Madam, dear Sir,

Report of the Trustees' Strategy Review – IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade

The European Banking Authority (EBA), which has come into being as of 1 January 2011, welcomes the opportunity to comment on the 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 and contribute to financial stability.

In general we welcome many of the principles and recommendations put forward by the IFRS Foundation in the paper, as they are believed to enhance the governance and standard-setting process of the IFRS Foundation and to strengthen consistency of application and implementation of IFRS.

More specifically, we maintain our views – already expressed in our response (dated 24 February 2011) to the IFRS Foundation public consultation paper Status of Trustees' Strategy Review – that financial stability considerations should be given appropriate weight in standard setting and accordingly also in the mission statement of the IFRS Foundation.

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.

We also in this context like to highlight the need for the IFRS Foundation to arrive at a comprehensive package of principles and recommendations which also encompasses the Monitoring Board's governance review.

Our views on the consultation paper are set out in more detail in the appendix hereafter.

If you have any questions regarding our comments, please feel free to contact Mr. Colinet (+ 32.2.220.5247) in his capacity as Chairman of the technical group that coordinated this comment letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Andrea Enria". The signature is fluid and cursive, with a prominent initial 'A' and a long, sweeping tail.

Andrea Enria

Chairperson, European Banking Authority

Appendix

Detailed comments on the recommendations set out in the report.

A. Mission: defining the public interest to which the IFRS Foundation is committed

Purpose of financial reporting standards

A1 In carrying out the IFRS Foundation's mission as the standard-setting body, the IASB should develop financial reporting standards that provide a faithful presentation of an entity's financial position and performance. Those standards should serve investors and other market participants in their economic and resource allocation decisions. The confidence of all users of financial statements in the transparency and integrity of financial reporting is critically important to the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth.

The EBA generally supports the mission statement as set out above. In the comments we provided to the IFRS Foundation public consultation paper Status of Trustees' Strategy Review (dated 24 February 2011) we suggested that financial stability considerations should be given appropriate weight in standard setting. We therefore welcome the purpose as described in A1 and the inclusion of financial stability as one of the factors to be considered when developing financial reporting standards. Indeed we believe that the objectives of transparency and financial stability are complementary.

A wider engagement of authorities that are tasked with contributing to financial stability in the standard setting process as well as a strengthening of the governance structure as such could be instrumental in achieving further strengthening.

The EBA in particular agrees with the Trustees that the IASB should build upon its technical dialogue established with prudential supervisors and other stakeholders when it comes to issues concerning the interaction of financial reporting and prudential concerns.

The EBA agrees that investors are important users of financial statements, although we consider that other user categories (e.g. other market participants, prudential regulators/supervisors) are relevant as well. In our previous comment letter we explained how financial statements are used as an important source of information for prudential supervisors. For that reason, the EBA would prefer to have the interests of supervisory authorities reflected in the users of financial statements.

In any case, the Trustees need to ensure that the focus is not on short-term investors alone, given that the interests (of the latter) can conflict with some of the drivers of financial reporting standards (e.g. global financial stability and sound economic growth).

More generally the EBA believes that IASB should assess and take into account the economic and financial environment and the potential consequences in their standard setting decisions. As part of their

commitment to the public interest¹, they should be mindful of the consequences of their decisions. While this should not go against adopting stringent or innovative standards, the IASB should nevertheless be aware of the consequences of their proposed standards and be able to justify its decisions. An appropriate way to address this is by means of impact assessments (as most standard setters do nowadays), field tests and related consultations.

As the financial statements and other parts of the annual report are clearly linked, the EBA understands that the Foundation's interest exceeds the financial statements. On the whole we do not see any major problem in that respect, provided the Foundation acknowledges and respects that many jurisdictions have their own requirements governing specific section of the financial report.

Adoption of IFRSs

A2 As the body tasked with achieving a single set of improved high quality global accounting standards, the IFRS Foundation must remain committed to the long-term goal of the global adoption, in their entirety and without modification, of IFRSs as developed by the IASB. Convergence may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period of time to implement but, whatever the mechanism, they should enable relevant entities to have an audit opinion stating full compliance with IFRSs as issued by the IASB.

In principle the EBA agrees that IFRS Foundation must remain committed to the long-term goal of the global adoption, in their entirety and without modification, of IFRSs as developed by the IASB.

In trying to achieve this objective the IFRS Foundation, and in particular the IASB, should however be very mindful of the interests of its constituents. The objective is in our view not achieved if global adoption is at the expense of certain regions or types of entities. As such the IFRS Foundation needs to ensure that the accounting standards have the buy-in and support of the largest possible part of its constituents, and not just certain regions (or types of entities).

However, the IFRS Foundation has to acknowledge that national or regional adoption mechanisms are beyond its remit and have to be respected

More generally, we question the appropriateness of dealing with audit opinion issues in the context of this Strategy review.

A3 With co-operation from national and international market and audit regulators, the IFRS Foundation should seek full disclosure where adoption of IFRSs is incomplete or there is divergence from the full set of

¹ The public interest scope should be clearly defined in order to encompass investors as well as other stakeholders guarantors of financial stability

IFRSs as issued by the IASB. The Foundation should seek a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully.

The Foundation recommends a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully. It is not entirely clear to us what 'mechanism' the Foundation is referring to in this recommendation. Therefore, a detailed description of the intended mechanism should be given by the Foundation to make it clear and understandable.

To us it seems that enforcement or compliance issues are not in the remit of the IFRS Foundation. Although we understand that the motivation underlying this recommendation and acknowledge that this could help enforcing the standards, it is not the responsibility of the IFRS Foundation. To the extent that this recommendation were to be investigated further, we strongly recommend that the IFRS Foundation places its efforts under the lead of enforcers

Scope of standards and IFRS activities

A4 In the near term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for private sector entities (i.e. both publicly traded entities and SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and for other purposes at a later date.

The IFRS Foundation notes that in the near term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for private sector entities (i.e. both publicly traded entities and SMEs).

The EBA does not object to this primary focus of the IFRS Foundation.. However, when developing standards for non-publicly traded or non-publicly accountable entities, the IFRS Foundation should bear in mind, that in many jurisdictions, these entities are subject to specific legal financial reporting requirements (or fiscal rules) which may not always be compatible with IFRS, or for which IFRS may not be suitable.

Provided the objective of having a set of high quality standards for publicly listed entities is achieved (and the necessary resources are available), the IFRS Foundation could also embark on the development of standards for other entities.

Consistency of application and implementation

A5 In pursuing its mission, the IFRS Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. The Foundation should pursue that objective in the following ways:

- The IASB, as the standard-setter, should issue standards that are clear, understandable and enforceable.

- The IASB will provide guidance on its standards that is consistent with a principle-based approach to standard-setting. All application guidance and examples must be necessary to understand the principles.
- The IASB will work with a network of securities regulators, audit regulators, standard setters and other stakeholders to identify divergence in practice. Where divergence in practice could be resolved through an improvement in the standard or an interpretation, the IASB or the IFRS Interpretations Committee will act accordingly.
- The IFRS Foundation, through its education and content services, should undertake activities aimed at promoting consistent application.
- The IASB, in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and encourage transparent reporting of such divergence.
- The IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective.

To help ensuring the consistent application of IFRSs internationally the IFRS Foundation considers a number of actions to pursue that objective. Among these, it is envisaged that the IASB will work with a network of securities regulators, audit regulators, standard setters and other stakeholders to identify divergence in practice.

Where divergence impacts comparability of financial statements and any incomparability is not addressed through adequate disclosures, initiatives such as these are considered useful.

Irrespective of enforcement arrangements, prudential regulators take a strong interest in consistent application of standards and comparability of and through disclosures across the financial sector and could thus provide valuable input to this initiative as well.

B. Governance: independent and publicly accountable

B1 The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained.

The EBA agrees with the recommendation to maintain independence of the IASB in its standard-setting decision-making process, within a framework of public accountability.

In that context, we would like to stress the importance of a need for public accountability framework. We believe that the most senior tier in the IFRS Governance structure is best positioned to assume a strong role and responsibility in that respect.

As put forward in previous comments, the EBA is of the view that this should involve publicly and politically legitimated oversight bodies. 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.

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. As previously mentioned, the composition criteria should 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).

This should help ensuring that the standards are in touch with reality, and are not purely based on theoretical concepts.

B2 The current three-tier structure (Monitoring Board, Trustees, IASB) is appropriate for the organisation's mission. Within that governance structure, the Monitoring Board, the IFRS Foundation and the IASB should enhance their interaction and procedures where appropriate to reinforce the principles of transparency, public accountability and independence. In doing so, the roles and responsibilities of each element of the organisation's governance should be clearly defined.

Subject to the comments made before and previously (public accountability, involvement of prudential supervisors), the EBA supports the current three-tier structure, with clearly defined roles and responsibilities of each element of the organisation's governance.

It is nevertheless felt that the roles and responsibilities of the Trustees - particularly their oversight of the IASB - and of the MB - particularly ensuring that the Trustees perform their oversight of the IASB properly - could be further clarified and enhanced.

As regards the Monitoring Board, we do not concur with the approach that is referred to as "a public capital market authority". We maintain that the MB should be expanded to represent every actor of the financial community (i.e. capital market and other representatives of the international financial system).

B3 Consistently with point B2, the Trustees should further clarify how they discharge their oversight responsibilities.

As mentioned before we consider that the role and responsibilities of the Trustees - especially regarding the oversight of the IASB - should be clarified.

Also the role of the Due Process Oversight Committee (DCOP) could be enhanced. In particular we have two comments regarding the current proposal to have this subcommittee perform due process status reviews:

- It should be clarified what the substance of this recommendation would be in practice (major projects; agreed framework; best practice). We believe the substance could include the DPOC (or Trustee staff

resources) from time to time re-performing an analysis of comment letters to EDs to ensure that there is no bias in the IASB's analyses. Another thing it might do is consider whether issues papers raise all the substantial concerns raised by respondents. We believe the substance should not include second-guessing the IASB's technical decisions.

- This recommendation does not include a mechanism for the DPOC/Trustees to act where the due process has not been followed properly.

B4 Elements of the governance structure should provide regular public reports to demonstrate their effectiveness.

The EBA supports this recommendation and understands that it applies to all levels of the three-tier structure.

C. Process: ensuring that its standards are of high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world

C1 A thorough and transparent due process is essential to developing high quality, globally accepted accounting standards. The IASB's due process is and should continue to be reviewed and further enhanced regularly, benefiting from regular benchmarking against other organisations and from stakeholder advice.

The EBA strongly supports that thorough and transparent due process is essential to developing high quality, globally accepted accounting standards. The EBA also supports the recommendation that the IASB's due process continues to be reviewed and further enhanced regularly.

Possible ways to further improve the due process include the following:

- 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.
- Introduce impact assessments & field testing as an integral part of the due process and foresee their carrying out as early as possible and reasonable within the standard-setting process.
- Greater involvement of all stakeholders, including prudential supervisors.
- Better feedback from IASB on how (and why) comments received have / or have not been taken into account.
- Setting clear criteria for re-exposure of EDs.
- Greater consideration of the number of new proposals that preparers can reasonably absorb within certain time frames.
- Involvement of the oversight body (or bodies) in the setting of the IASB agenda and strategic orientations and of the conceptual framework.

C2 The framework for the Trustees in their oversight of the IASB's due process should be clarified. The Trustees' Due Process Oversight Committee should review and discuss due process compliance regularly throughout the standard-setting process and at the end of the process before a standard is finalised. The Committee should report regularly on these activities to the Trustees and in its annual report.

The EBA agrees with the suggestion to clarify the framework for the Trustees in their oversight. We also agree that the Trustees' Due Process Oversight Committee should regularly review and discuss due process compliance throughout and at the end of the process. The Committee should report regularly on these activities to the Trustees and in its annual report.

C3 Building on the existing due process framework and in an effort to improve the usability of financial information, the IASB should undertake the following:

- Clear demonstration of how priorities on its agenda are set: In the agenda-setting process and after the required public consultation, the IASB should provide full feedback. This will assist in demonstrating how the IASB's priorities are set.
- Agreed methodology for field visits/tests and effect analyses: The IASB should work with relevant parties to develop an agreed methodology for field visits/tests and effect analyses (more often referred to as cost-benefit analyses or impact assessments).
- Integration of XBRL into the standard-setting process and the development of relevant XBRL taxonomy extensions: In order to take into account the impact of technology, the development of the IFRS XBRL taxonomy should be integrated into the IASB's due process. In addition, the IFRS XBRL taxonomy should be expanded to include a relevant number of extensions to the existing base taxonomy.

The EBA is of the view that 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 EBA supports the recommendation for the IASB to provide full feedback explaining how it accounted for the views of the Trustees, the IFRS Advisory Council, the MB and other stakeholders. However, the recommendation does not include a mechanism for the Trustees to challenge the IASB to reconsider non-technical agenda decisions if in their view the IASB should have decided differently.

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.

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.

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.

As mentioned above, the EBA also supports the development of a methodology for field visits/tests and impact assessments. However, the IASB should also determine at what stage – preferably as early as possible and reasonable – in the development of a standard such visits, tests and analyses are undertaken.

The EBA supports the integration of XBRL into the standard-setting process and the development of relevant XBRL taxonomy extensions. In doing this the IASB could take into account the experience of the EBA regarding XBRL taxonomies for supervisory reporting.

C4 To support the IFRS Foundation's interest in consistent application of IFRSs and within the IASB's standard-setting mandate, the Foundation and the IASB should undertake the following actions:

- using an agreed methodology, undertake post-implementation reviews to help identify implementation issues.
- establish formal co-operation arrangements with securities regulators, audit regulators and national standard-setters to receive feedback on how IFRSs are being implemented and to encourage actions aimed at addressing divergence.
- refine the scope of the IFRS Interpretations Committee's activities to ensure consistency of interpretation, without undermining the commitment to a principle-based approach to standard-setting.

The EBA agrees with the recommendations that the IASB should undertake post-implementation reviews. However, the scope of such reviews is too narrow, being limited to important issues identified as contentious during the development of the pronouncement and including any unexpected costs or implementation problems encountered. The scope of such post-implementation reviews should be extended to cover whether the standard's objectives have been met.

Regarding the selection of standards qualifying for post-implementation review, the recommendation limits such reviews to new IFRSs and major amendments and major interpretations. We believe it could be useful to

look moreover and give priority to standards causing application problems. The enforcement decisions included in ESMA's European Enforcers Co-Ordination Sessions (EECS) could be helpful to identify such standards.

The EBA also stands ready to participate in any formal co-operation arrangements established by the foundation to receive feedback on how IFRSs are being implemented and to encourage actions aimed at addressing divergence.

Further to refining the scope of the IFRS Interpretations Committee's activities to ensure consistency of interpretation, without undermining the commitment to a principle-based approach to standard-setting, the Foundation should ensure that the Committee has sufficient resources to operate efficiently.

C5 The IFRS Foundation and the IASB should encourage the maintenance of a network of national and other accounting standard-setting bodies as an integral part of the global standard-setting process. In addition to performing functions within their mandates, national and other accounting standard-setting bodies should continue to undertake research, provide guidance on the IASB's priorities, encourage stakeholder input from their own jurisdiction into the IASB's due process and identify emerging issues.

The EBA supports the recommendation that the IFRS Foundation and the IASB should encourage the maintenance of a network of national and other accounting standard-setting bodies as an integral part of the global standard-setting process.

C6 To provide thought leadership in the field of financial reporting, the IASB should establish, or facilitate the establishment of, a dedicated research capacity.

The IFRS Foundation recommends that, in order to provide thought leadership in the field of financial reporting, the IASB should establish, or facilitate the establishment of, a dedicated research capacity. While the EBA generally agrees with such an initiative, it could be helpful that the IFRS Foundation further explains why they feel there is currently a gap in this area and why this should be filled.

Moreover, it needs to be ensured that such a research capacity can operate efficiently without only being a cost factor.

In addition, the Discussion paper phase could be used to provide a forum for the discussion of research work

D. Financing: ensuring the organisation is financed in a manner that permits it to operate effectively, efficiently and independently

D1 The funding system must maintain the independence of the standard-setting process, while providing organisational accountability.

As set out in our previous comment letter, the EBA supports a funding system that maintains the independence of the standard-setting. A secure, stable funding mechanism will enable the IASB in carrying out its agenda (all the while providing a prerequisite for the adoption of IFRS in the US).

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

D2 The existing base of financing should be expanded to enable the IFRS Foundation to serve the global community better and to fulfill the strategy described above. Specifically, funding should be proposed by the Trustees to be on a long-term basis (at least three to five years), be publicly sponsored, be flexible to permit the use of differing mechanisms and to adjust to budgetary needs, be shared among jurisdictions on the basis of an agreed formula (consistent with the principle of proportionality) and provide sufficient organizational accountability.

On the whole the EBA agreed with the above recommendation.

One of the recommendations regarding a new funding system is that it should be adjustable to budgetary needs, which are likely to increase quite significantly. The organisation should clearly demonstrate increasing funding needs, using the agenda as a basis, and taking into account restrictions in attracting sufficiently qualified and experienced staff resources.

More generally, the IFRS Foundation may also want to consider whether the provision of funding should be linked to the participation in the governance. On the one hand the involvement of (and funding from) representatives from non-IFRS using jurisdictions may lead to further convergence with and the adoption of IFRS. On the other, the funding by 'non-IFRS using jurisdictions' should not pose a threat to the independence of the IFRS Foundation and its governing bodies.

Somehow related, the IFRS Foundation could also consider whether participation in the governance should be linked to a commitment to adopt IFRS, although there might be a trade-off in the sense that it could deter non-IFRS using jurisdictions and thus ultimately widen the gap between IFRS and other accounting frameworks.