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Dear Sirs

Consultative Report on the Review of the Governance of the IFRS Foundation

I am writing on behalf of AFME (the Association for Financial Markets in Europe) to respond to the Monitoring Board's 7 February Consultative Report on the Review of the IFRS Foundation's Governance ("the Report"). AFME is, as may know, the leading European trade association for firms active in investment banking and securities trading; it was established in November 2009 as a result of the merger of LIBA (the London Investment Banking Association) and the European Branch of SIFMA (the US-based Securities Industry and Financial Markets Association), and thus represents the shared interests of a broad range of participants in the wholesale financial markets. We welcome the opportunity to respond to this consultation.

We find the proposals in the Report to be generally sensible and believe they should, if appropriately implemented, help to improve the governance of the IASB, and hence the acceptability of its standard-setting process. We do however have one high-level comment. The IASB will function effectively if, and only if, there are constructive working relationships between the three component institutions of the Foundation: the Monitoring Board, the Trustees and the Board itself. It is therefore of paramount importance that any changes to the existing structure be effected in such a way as to enhance, rather than to inhibit, both the formal and the informal aspects of these relationships.

Subject to this general comment, our responses to the questions set out on pages 2-6 of the Report are as follows:

- 1. Do you agree with the proposal to urge concrete efforts to deepen the pool of candidates for IASB membership from diverse geographical and professional backgrounds? Please provide reasons for your agreement/disagreement.*

- A. If IASB members are to represent the “best available combination of technical expertise and diversity of international business and market experience”, they should be selected from the widest possible pool of potential candidates. We would therefore support efforts to deepen the pool of such candidates, always provided that there must be no dilution of the technical quality of those appointed.
2. *Do you agree with the proposal to separate the roles of the IASB Chair and the CEO of the IFRS Foundation, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/ disagreement.*
- A. We support in principle the proposal to separate these two roles, subject to one important proviso: a close working relationship between the holders of the two posts is essential to the successful functioning of the IASB, and the ability to make such a relationship work effectively is therefore a necessary prerequisite for candidates for either role. It follows, we believe, that the two appointments should where practical be made at the same time; where this is not practical, the ability to work well with the existing incumbent should be an important criterion in selecting for the other position.
3. *Do you agree that clearer division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation’s administrative and oversight functions should be considered, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/disagreement.*
- A. We agree that the responsibility for the IASB operations and staff should be clearly separated from responsibility for the Foundation’s administrative and oversight functions, but we do not believe that this necessarily implies a 100% separation of the individual staff members associated with these two areas. Provided the respective responsibilities are clearly defined, we see no inherent reason why the job description of a particular individual should not include elements of support to both the IASB and the Foundation. We believe the key tests should be: i) whether the overall staff support to the IASB, the Foundation, and the Monitoring Board is enhancing, rather than detracting from, both the formal and the informal aspects of the relationships between these bodies, and ii) whether this support is operating in a cost-effective manner.
4. *Please provide comments on any aspects of Trustee composition or appointments that you believe the Monitoring Board should consider.*
- A. The Constitution sets out the regional distribution, and the “appropriate balance of professional backgrounds” for Trustees. We believe a key role of the Monitoring Board is to ensure that these criteria are applied pragmatically, taking into the account both the range of possible candidates identified from different geographical/professional backgrounds, and the need for the Trustee body to work effectively as a whole.

5. *Do you agree with the proposal to provide increased transparency into the process for Trustee nominations? Please provide reasons for your agreement/disagreement. To what extent should the Monitoring Board be involved in the nomination process?*

Do you agree that further clarification of criteria for the Trustees' candidacy would help support confidence of the stakeholders? Please provide reasons for your agreement/disagreement.

- A. We agree that increased transparency in the process of nomination, and in the criteria used for selection, of Trustees should help to improve the confidence of stakeholders in the appointments made. We believe, however, that such improvements should be achievable within the scope of the Monitoring Board's present role ("to recommend candidates and otherwise consult with the Trustees during the nomination process"), and should not require any change to the Monitoring Board Constitution or to the Memorandum of Understanding.
6. *Should the membership of the Monitoring Board continue to be confined to capital markets authorities responsible for setting the form and content of financial reporting in respective jurisdictions?*

Do you agree with the proposal to expand the Monitoring Board's membership by adding a mix of permanent members ([four]) representing primarily major emerging markets and rotating members ([two]) from all other markets? Please provide reasons for your agreement/disagreement. How should the major markets be selected? Should a jurisdiction's application of IFRSs and financial contribution to standard-setting play a role?

Do you agree that rotating members should be selected through IOSCO? Please provide reasons for your agreement/disagreement.

- A. We agree that membership of the Monitoring Board should continue to be confined to capital markets authorities (as defined in the question), and we also agree with the proposal to expand the membership by adding a mix of permanent and rotating members. We suggest that the selection of new "major markets" should be made in the first instance by IOSCO, with their selection subject to approval by the existing members of the Monitoring Board; we also think it reasonable, in this context, that the extent of application of IFRSs within a particular jurisdiction, and the associated financial contribution to standard-setting, should be relevant criteria for Monitoring Board membership. We also agree that that the selection of rotating members through IOSCO is an appropriate process.
7. *Do you agree that the Monitoring Board should continue to make its decisions by consensus? Please provide reasons for your agreement/disagreement. Are there any types of decisions taken by the Monitoring Board for which voting other than by consensus (for example, by qualified majority) may be appropriate? If so please describe why and suggest an appropriate voting mechanism.*

- A. We strongly support the proposal that the Monitoring Board should continue to make all decisions by consensus. We see the need to reach consensus as providing constructive pressure on the Monitoring Board members to reach agreement; the introduction of an alternative more formal voting system could reduce this helpful pressure and would thus be a retrograde step.
8. *To ensure increased involvement of public authorities and other international organizations in Monitoring Board activities, do you support the Monitoring Board (a) expanding the number of Monitoring Board observers, (b) holding more formalized dialogue, or (c) establishing an advisory body, and on what basis? What should be the criteria for selecting participants?*
- A. We support the proposal to expand the number of Monitoring Board observers along the lines suggested in the Report, and would encourage the Monitoring Board to hold “a more formalised dialogue” with such observers and/or with other bodies as it sees fit. We would, by contrast, oppose the establishment of an advisory body: this would, in our view, add an unnecessary level of complexity to the existing structure which could potentially interfere with the constructive working relationships of the existing tripartite structure which – as noted in our preliminary remarks above – we believe to be essential to the effectiveness of the standard-setting process.
9. *Do you believe that the current arrangements for the standard-setting process adequately ensure the appropriate involvement of all relevant stakeholders and that all relevant public policy objectives are taken into account? Please provide reasons for your agreement/disagreement.*
- A. While we believe the current arrangements for standard-setting adequately meet the criteria set out in the question, we note that the identification of “relevant stakeholders” and of “relevant public policy objectives” depend on essentially subjective criteria which may change from time to time. It is therefore important that the IASB, the Trustees and the Monitoring Board do not see the “current arrangements for the standard-setting process” as set in stone. All three bodies should remain sensitive to changes in the identity and/or importance of “relevant” stakeholders and public policy objectives, with a view to recommending consultation on, and/or changes in, these arrangements if they feel this is appropriate at any time.
10. *What are the appropriate means and venues for the Monitoring Board to enhance the visibility and public understanding of its activities?*
- A. We have no strong views on these issues, believing that they are best decided by the Monitoring Board after taking appropriate soundings.
11. *Do you believe that the current arrangements for Monitoring Board involvement in the IASB’s agenda-setting are appropriate, or should the Monitoring Board have an*

explicit ability to place an item on the agenda, or would you consider other alternatives that would enhance the Monitoring Board involvement in the IASB agenda setting? Please provide reasons.

A. We believe the current arrangements for Monitoring Board involvement in the IASB's agenda are appropriate as they stand and that the terms of Article III (b) of the Memorandum of Understanding already provide an appropriate mechanism for referring issues to the IASB. Any formal ability to place items on the IASB agenda has, we believe, the potential to be divisive, and could thus be counter-productive to the efficient operation of the standard-setting process.

12. *Do you have concrete suggestions on how the Monitoring Board or the Trustees could encourage a move towards a more stable and independent funding model?*

A. We have no specific suggestions on the funding of the IFRS Foundation.

13. *Do you believe that the Monitoring Board should have a more prominent role in the selection of the IASB Chair? Do you agree with the proposal that the role include involvement in establishing a set of publicly disclosed criteria for the Chair, and assessment of a short list of candidates against those criteria? Please provide reasons.*

Do you believe that the Monitoring Board should be given any further, specific role in the selection of the IASB Chair? In particular, should the Monitoring Board approve the Trustees' final selection? Please provide reasons.

A. We believe it is essential for the effective operation of the standard-setting process that the Monitoring Board has full confidence in the IASB Chair. It would accordingly be helpful for the Monitoring Board to be involved in establishing publicly disclosed criteria for the Chair, and to provide (confidential) feedback to the Trustees on its assessment of short-listed candidates against those criteria. We do not, however, see it as necessary for the Monitoring Board's role to include the formal approval of the final candidates.

14. *Do you agree that the Monitoring Board's responsibilities should explicitly include consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB? Please provide reasons for your agreement/disagreement.*

A. We see no need to make the Monitoring Board's responsibilities for consultation with the Trustees more explicit: the precise nature and topics of such consultation should be determined by the two bodies on a practical basis taking account of what both parties see as relevant current issues.

15. *Do you agree with the proposal to consider establishing a permanent secretariat for the Monitoring Board to support its increasing roles in overseeing the governance of the standard-setter? Would you support this proposal even if it would require additional financial contributions from stakeholders? Please provide reasons.*

A. We believe it should be possible to establish clear separation between the functions and responsibilities of the Monitoring Board, the Trustees and the IASB without the need for a physically separate permanent secretariat. Apart from the increased cost that such a separation would be likely to entail, we are concerned that it could inhibit communication between the different bodies and thus reduce their ability to work together on an effective basis.

16. *Do you agree with the need for regular reviews, and the interval of five years as a benchmark? Should the reviews be aligned with the timing of the Foundation's mandated Constitution reviews? Please provide reasons for your agreement/disagreement.*

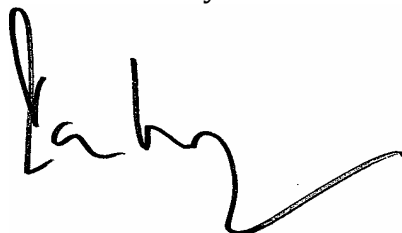
A. We agree that the governance structure should be reviewed on a periodic basis and that an interval of five years is an appropriate benchmark. The structure should however provide for earlier reviews to be called at any time if one or more of the constituent bodies feels this to be necessary. In the normal course of events, it would seem sensible to align such reviews with the timing of the Foundation's mandated constitution reviews so that the two review processes are part of the same exercise.

17. *Do you have any other comments?*

A. We have no further comments on this process.

I hope these comments are helpful. We would of course be pleased to discuss any points which you may find unclear, or where you believe AFME members might be able to assist in other ways.

Yours sincerely



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