



FEDERATION  
BANCAIRE  
FRANCAISE

*Banking supervision  
And Accounting issues Unit  
The Director*

Paris, April 8<sup>th</sup> 2011

**FBF Response - IFRS Foundation Monitoring Board - Consultative Report on the Review of the IFRS Foundation's Governance**

Dear Sirs,

The French Banking Federation (FBF) is pleased to have the opportunity to comment on the Consultative Report on the Review of the IFRS Foundation's Governance.

We share the concerns of the Monitoring Board of a relevant governance structure to promote the objective of setting high quality, globally accepted standards in an independent and accountable manner within financial stability requirements. To summarize our responses to the set of questions of the Consultative report, we would like to focus on the following points:

- We agree with the comments of the Consultative Report to give due consideration and to strengthen the oversight role of the Monitoring Board in the frame of the standard-setting process. Accordingly, the Monitoring Board should be in charge of the control of quality of the standards. The review of quality control of the standards would be completed with regard to the work program approved and with regard to the improvements to the standard duly motivated by the Board of the IASB. This would enhance the accountability of the accounting standard setter and avoid a monopoly without control of promulgating accounting standards.

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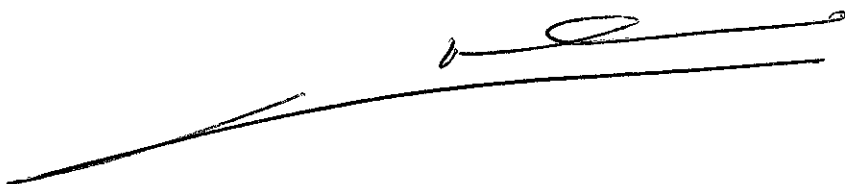
- As already mentioned in our response on Status of Trustees' Strategy Review, we believe that involvement of stakeholders should be improved in various fields such as an annual consultation on the IASB Agenda, an adequate comment period to allow stakeholders undertake thorough analysis of the consultation papers, re-exposure of the projects when finalisation of the project by the Board implies substantial changes to the project previously exposed, formal evaluation of comments received regarding the original conclusions reached by the Board.

- Regarding the place taken by the IFRS standards within the international regulatory framework, the membership of the Monitoring Board should be extended to the Basle Committee and the Financial Stability Board members as voting members.

- We question the limited membership of the European participants to the two structures of the Trustees and the IASB Board while the European Union is currently one of the few jurisdictions requiring all its publicly traded companies to report under IFRS standards.

Our answers to the Consultative Report of the Monitoring Board are detailed in the Appendix to this letter. We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

A handwritten signature in black ink, consisting of a long horizontal line with a small loop at the end, followed by a shorter horizontal line below it.

Jean-Paul Caudal

## Appendix

### IASB:

#### Composition of the IASB.

##### Question 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.*

Rather than a focus on deepen geographical and professional backgrounds of candidates, consideration should be taken for identification of qualified technical profiles and for representation of jurisdictions where IFRS standards are implemented.

Only jurisdictions applying the IFRS should participate in the Board of the IASB. Although some jurisdictions have programs underway to converge with the IFRS, the European Union is currently one of the few jurisdictions and the most important one that requires for its publicly traded companies to prepare their consolidated reporting in conformity with the IFRS. Yet, its membership to the Board of the IASB is limited to four members out of sixteen.

Accordingly, American members should participate to the Board of the IASB as non-voting members as incorporation of IFRS standards into the US financial reporting system is still under consideration by the SEC or unless obtaining reciprocity of participation of members not applying the USGAAP within the FASB.

Broadening professional backgrounds of the candidates should not ignore the need of highly quality individuals with experience of financial reporting and IFRS standards as accounting issues become nowadays more complex.

Moreover, increasing the current size of the IASB's membership could be counterproductive and undermine the efficiency and the effectiveness of deliberation of technical issues. We believe that a membership of sixteen is sufficient.

#### Dual role of the IASB Chair

##### Question 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.*

We agree to separate the roles of IASB Chair and the CEO of IFRS Foundation.

As highlighted in the Consultative report, separation of the roles would enhance governance by strengthening the independence of the IASB and avoid conflict of interests due to the fact that the IASB Chair is the CEO of the IASB's oversight body.

Moreover, from an operational point of view, the two roles are time-consuming and would face increasing level of activities of each of the two instances. Their separation would allow the two members to devote necessary attention to their specific roles.

## **Function of the staff**

### *Question 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.

We agree that there should be a division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation's administrative and oversight functions. We believe that the standard-setting activities should be independent to the oversight or administrative activities. Moreover, this division of responsibilities will duplicate the separation of roles of the IASB Chair and the CEO of the IFRS Foundation. It would avoid undue conflicts of interests.

## **Trustees:**

### **Composition of the Trustees**

#### *Question 4:*

- Please provide comments on any aspects of **Trustee composition or appointments** that you believe the Monitoring Board should consider.

As explained in question 1, the European Union is currently the most important jurisdiction that requires for its publicly traded companies to prepare their consolidated reporting in conformity with the IFRS standards. Yet, its membership to the Trustees is limited to four members out of nineteen.

Accordingly, American members should participate to the Trustees as non-voting members as incorporation of IFRS standards into the US financial reporting system is still under consideration by the SEC.

Therefore, we would advocate for an increased representation of the European members.

## **Nomination process of the Trustees**

### *Question 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.

We agree that increasing transparency into the process for Trustee nominations would boost confidence of stakeholders.

A clear description of the formal procedures and criteria for candidacy would help to achieve the aim of transparency. However, as stated in the Consultative Report, the transparency of the process of the nomination of the Trustees should be achieved within the limits of privacy of individuals and within the necessary degree of confidentiality.

Currently the procedures for nominating and appointing Trustees are the result of some arrangements and agreements between the Trustees and the Monitoring Board. We see no specific reasons to expand further the involvement of the Monitoring Board in the nomination process of the Trustees. Trustees should be able to keep some primacy to establish procedures for appointing their members.

## **Monitoring Board:**

### **Composition of the Monitoring Board.**

*Question 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.*

Concerning the profile of capital markets authorities' representatives to sit on the Monitoring Board, we believe it would be more logical for the IFRS Trustees and the IASB to be accountable to members of jurisdictions that relevant public policy objectives, common good and global financial stability have adopted or are in the process of adopting IFRS.

There are no reasons to expand the Monitoring Board membership to capital markets authorities from jurisdictions that have not adopted IFRS standards.

Given the place taken by the IFRS standards within the international regulatory framework and given that relevant public policy objectives, common good and global financial stability should be taken into consideration when setting high quality accounting standards, we believe that membership of the Monitoring Board should not be limited to capital market authorities.

Therefore, we advocate that the composition and representation of the Monitoring Board should be extended to the Basle Committee and the Financial Stability Board.

### **Form of decision making**

*Question 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.*

Consensus is an adequate procedure as it reflects all the views of the members. However, increasing the Monitoring Board's membership may affect the efficiency of the consensus decision-making model as it may be time-consuming before reaching a common decision or as it may result in gridlock in the decision process.

Therefore a voting mechanism would be more relevant in order to reach clear and effective decisions in urgent situations or when attempts to achieve a consensus have failed. Adopting a qualified majority vote may be closer to a consensus model. A simple majority vote with opportunity to express dissenting views would have the merit of a quicker decision.

### **Inclusion of prudential regulators and other public authorities.**

*Question 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?

As we explained in question 6, we believe that the membership of the Monitoring Board should not be limited to capital markets authorities and that it should be extended to the Basle Committee and the Financial Stability Board members as voting members and not as observers.

### **Additional measures – enhanced transparency**

*Question 10:*

- What are the appropriate **means and venues** for the Monitoring Board to enhance the **visibility and public understanding of its activities**?

We agree with the comments of the Consultative Report that enhancements should be made to visibility and public understanding in the Monitoring Board's activities. We believe that means and venues can be similar to the ones adopted in the IASB communication process and as commented in the Consultative Report (i.e. increased use of press releases, public meetings broadcast on the internet, coordination of communication activities with the IFRS Foundation Trustees and the IASB).

### **Roles and responsibilities of the Monitoring Board**

*Question 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.

The frame of convergence and the mandate of the IASB to promote a set of high quality financial standards would result for the IASB to have a monopoly in promulgating accounting standards. To avoid this situation of monopoly, we advocate strengthening the quality control in the standard setting process in order to achieve a high quality globally accepted standards. Accordingly, we are in the view this role should be played fully by the Monitoring Board. The review of quality control of the standards should be completed with regard to the work program approved, with regard to the objectives previously defined at the inception of the project and with regard to the improvements to the standard duly motivated by the Board of the IASB.

As far as agenda-setting is concerned, the Monitoring Board should be able to validate work program and timetable, notably by adding new items or withdrawing projects according to responses received from the constituents related to the annually consultation of the IASB agenda. We do not believe that the IASB's independence would be impaired if the Monitoring Board would have an explicit authority to place an item on the agenda as part of its role of oversight of the standard-setting control quality.

*Question 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**?*

To operate effectively and efficiently, the IASB and the Foundation should benefit from a stable and transparent funding.

We would suggest that beside voluntary contributions and to ensure a permanent funding source, the European Commission contribution could be increased within the framework of the European law.

### **Nomination of the IASB Chair**

*Question 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.*

In the repartition of the roles and responsibilities within the IFRS Foundation, the Trustees are in charge of the nomination process of the IASB members.

Besides as highlighted by the consultative report, the IASB Chair has a central role to ensuring accountability of IAS operations. First, it could be helpful that the Monitoring Board provides the Trustees with its views on a set of criteria for selecting the IASB Chair for an appropriate combination of technical background and geographical representativeness. Then, disclosing publicly criteria for the Chair would enhance transparency and would increase confidence in the nomination process.

The Monitoring Board could intervene at the final stage of approval as a control of quality. Its review would be limited to ensure that the nomination of the IASB Chair is in accordance with the set of criteria previously defined.

*Question 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.*

We believe that the objective to ensure a proper balance in the composition of the IASB should be to ensure an adequate representation of technical profiles and an adequate representation of members from jurisdictions which apply the IFRS Standards, as we explained in question 1.

As far as involvement of the Monitoring Board is concerned, we believe that the three-tiered governance structure should be taken into consideration. Within that frame, the Trustees should keep their role of oversight of the due setting process. The role of the Monitoring Board as an oversight body should be limited in that matter to a role of quality control regarding the respect of the nomination process and criteria of selecting candidates duly defined.

### **Creation of a permanent secretariat for the Monitoring Board.**

*Question 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.*

As we favour an increased role of the Monitoring Board in overseeing the governance of the IASB, we agree to establish a permanent secretariat for the Monitoring Board.

### **Other questions:**

*Question 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.*

The current IASB's standard setting process is well designed in its principles in order to involve appropriately stakeholders.

However, as already mentioned in our response on Status of Trustees' Strategy Review, we believe that involvement of stakeholders should be improved in various fields as follows :

- Stakeholders should be involved in establishing the work program and assessing the project priorities.
- The IASB has developed outreach activities and roundtable meetings in the major jurisdictions. It should report on the conclusions of its activities in a more formal way.
- Sufficient time should be given to them to respond to public consultation papers and to undertake thorough analysis of the projects and their impacts. The IASB has rushed its projects related to the IAS 39 reform on some major issues such as Impairment.
- The IASB should consider re-exposing proposed standards when redeliberations following comments received and finalisation imply substantial changes to the project previously exposed or when successive and separated published papers lead to a fragmentary view of the draft proposals as it is the case regarding the Impairment project. Re-exposure will help stakeholders to properly consider all the issues in their full context.
- Finally, we question on the way responses of stakeholders to the consultation papers are taken into consideration by the IASB. We would encourage the IASB to be more precise in evaluating comments received regarding the original conclusions reached by the Board.

The IASB mission of setting financial reporting standards should not contribute to financial instability. It should have more consideration of public policy objectives and financial stability in the standard setting process. Therefore, field testing and post implementation reviews could contribute to analyse the possible macro effects of accounting standards.



*Question 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.*

We agree with the need for regular reviews of IFRS Foundation governance.

We agree that a five year cycle for periodic reviews is appropriate. This would allow enough background to assess enhancements made from the previous reviews. However, some flexibility could be added to the timing when fundamental change of circumstances would have an impact of the current process of the governance.

Align the timing of the Monitoring Board's review with the Foundation's periodic Constitution reviews would have some merit. Both reviews are complementary and closely linked as both may lead to amendments to the Constitution of the IFRS Foundation. Moreover, we would suggest co-ordinated actions and reviews by the Monitoring Board and the Trustees. This would be helpful to constituents as the same issues are likely to arise in the two review processes.

*Question 17:*

*Do you have any other comments?*

We have no further comments.