23 January 2009

The Honourable Alejandro Werner
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Ministry of Finance and Public Credit
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The Honourable Jörg Asmussen
State Secretary
Federal Ministry of Finance
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Dear Minister Werner and Secretary Asmussen:

On behalf of the Trustees of the International Accounting Standards Committee Foundation (IASC Foundation), I am writing to provide you with an update of our review of the IASC Foundation’s governance arrangements. As your letter of 12 January to Sir David Tweedie notes, the Trustees recently met in New Delhi, India, to discuss their Constitutional proposals. At that meeting, we completed the first part of our Constitution Review, which addressed the issue of public accountability (the link to the Monitoring Board) and the composition, geographical diversity, and the size of the International Accounting Standards Board (IASB).

Our Constitutional changes are intended to be significant enhancements to existing governance arrangements. Underpinning the organisation’s structure is the internationally-accepted principle that global accounting standards should be developed by an independent IASB. The IASB reaches conclusions following a transparent and open due process that considers the views of all stakeholders. An independent and geographically diverse body of Trustees oversees the IASB. Under the Constitutional changes, the Trustees themselves shall be publically accountable to a Monitoring Board of public authorities.

This basic approach to the architecture of governance is similar to that in place in many national jurisdictions for accounting standard-setters. Our consultation process revealed strong and consistent support among investors and other stakeholders on the need to maintain, within agreed due process, the independence of the IASB’s decision-making. At the same time, stakeholders understood the need to establish a formal linkage to public authorities, where none was previously defined, and strongly encouraged our efforts to enhance the organisation’s public accountability. The proposed Monitoring Board members all also supported the independence of the IASB’s decision-making within the new governance framework.

Therefore the first part of the Constitution Review focused on the creation of a direct link to public authorities—one that would seek to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard-setters. In reaching conclusions about the proposals for the first part, we worked closely with a group of public authorities—the International Organization of Securities Commissions (IOSCO), the European Commission, the Japan Financial Services
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Agency (FSA), and the US Securities and Exchange Commission (SEC). Those organisations issued in November 2007 a press release regarding the IASCF’s public accountability, consistent with the conclusions on public accountability emerging from the Trustees’ strategic review during 2007.

We also conducted, in 2008, a consultation process that included round table discussions in London and a public comment period, where we received responses from more than 70 individuals and organisations. Stakeholders generally supported the approach on public accountability.

At our meeting in New Delhi on 15 January, the Trustees unanimously decided to approve the necessary Constitutional changes to establish a link to a newly created Monitoring Board. The membership will comprise the relevant leaders from the IOSCO Emerging Markets and Technical Committees, the European Commission, the Japan FSA, and the US SEC. The Basel Committee on Banking Supervision will sit as a formal observer at Monitoring Board meetings. Furthermore, the Trustees approved the text of the Memorandum of Understanding that will govern the relationship between the Trustees and the Monitoring Board.

The responsibilities of the Monitoring Board shall be:

(a) to participate in the process for appointing Trustees and to approve the appointment of Trustees according to the guidelines set out in the IASC Foundation Constitution.

(b) to review and provide advice to the Trustees on their fulfilment of the responsibilities set out in IASC Foundation Constitution. The Trustees shall make an annual written report to the Monitoring Board.

(c) to meet the Trustees or a subgroup of the Trustees at least once annually, and more frequently as appropriate. The Monitoring Board shall have the authority to request meetings with the Trustees or separately with the Chairman of the Trustees (with the Chairman of the IASB as appropriate) about any area of work of either the Trustees or the IASB. These meetings may include discussion of, and any IASC Foundation or IASB proposed resolution of, issues that the Monitoring Board has referred for timely consideration by the IASC Foundation or the IASB.

The Trustees believe that the Monitoring Board arrangement directly addresses the two recommendations cited in your letter and will better permit the IASC Foundation to work with a broad range of economies and other appropriate regulatory bodies. I am attaching the revised Constitution and the text of the Memorandum of Understanding for your information.

The formal process of signing the Memorandum of Understanding is now underway and should be completed in the coming days. This will put the Monitoring Board arrangement formally into effect. It is our expectation that the Trustees will have their first opportunity to meet with the Monitoring Board in early April in London.
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In agreeing these proposals, the Trustees are conscious of the ongoing discussions among G20 members and the specific recommendations related to membership in international bodies. The initial membership of the Monitoring Board is as detailed above. It does not preclude the Monitoring Board adding by consensus new members as circumstances dictate. The Monitoring Board would consult with the Trustees about any new Monitoring Board members.

Furthermore, consistent with the recommendation of the G20 to examine the membership of standard-setting bodies, the Trustees also approved, in New Delhi on 15 January, a Constitutional change that will expand the IASB to 16 members and provides guidelines regarding geographic diversity. In order to ensure a broad international basis, there shall normally be four members from the Asia/Oceania region; four members from Europe; four members from North America; one member from Africa; one member from South America; and two members appointed from any area, subject to maintaining overall geographical balance.

Finally, the Trustees are closely monitoring the IASB’s progress on the other recommendations made by the G20. Our organisation is committed to acting in an urgent and responsible manner to help restore confidence in financial markets. I attach a summary of our response to each of the G20 recommendations.

I look forward to answering any further questions that you and your colleagues may have.

Yours sincerely,

Gerrit Zalm  
Chairman

Attachments