



FEDERATION
BANCAIRE
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The Director General delegate

Paris, February 25th 2011

FBF Response on Status of Trustees' Strategy Review

Dear Sirs,

The French Banking Federation (FBF) is pleased to have the opportunity to comment on Trustees' Strategy Review.

We welcome the initiative of the Trustees to seek inputs on how to consolidate the accounting standard setter organisation. We share the concern of a high quality set of accounting standard within financial stability requirements.

To enhance the accountability of the accounting standard setter and to avoid a monopoly of promulgating accounting standards, we would advocate strengthening the oversight body structure. Accordingly, the IASB's Board should be accountable to the Monitoring Board for the development of accounting standards within a work program discussed through an annual public consultation, objectives of public interest and financial stability requirements.

The Monitoring Board should carry out the control of the quality and the relevance of the standards in order to achieve a high quality globally accepted accounting standards.

To best ensure the requirements of high quality standards, we have identified the following major fields where the due process should be improved:

- an annual consultation of the IASB agenda to appreciate the priorities of the IASB's work program ;
- an adequate comment period to allow stakeholders follow their own due process and to allow entities devote sufficient resources for assessment of the projects ;
- systematic field-testing in order to evaluate the potential impacts of the projects ;
- a post-implementation review within two years after implementation in order to reveal interpretation and implementation issues ;
- an adequate time for implementation.

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We also would like to mention the too ambitious deadlines of June 2011. We identify risks of interpretational issues and decisions previously adopted by the IASB likely to be reversed when convergence with the FASB will be discussed.

Finally, we question the limited membership of the European participants (four members out of sixteen) to the IASB's Board while the European Union is currently the only jurisdiction requiring all its publicly traded companies to report under IFRS standards.

Our answers to the review of the Trustees' Strategy 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, appearing to read 'Pierre de Lauzun', with a stylized flourish at the end.

Pierre de Lauzun

Appendix

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?*

Regarding the place taken by the IFRS standards within the international regulatory framework, they should not be developed in an only investor-based approach. Investors cannot be seen as the only users of financial reporting. A wide scope of stakeholders should be taken into account such as regulatory authorities, intergovernmental agencies, lenders or other trade creditors.

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?*

First of all, accounting standards should not contribute to the financial instability.

As transparency and integrity of financial statement are of great importance for providing high-quality financial information, high quality accounting standards should be built taken into consideration at each step of the standard-setting process all relevant public policy objectives, common good and global financial stability.

Therefore, close cooperation should be developed with the Basle Committee and the Financial Stability Board in order to promote relevant accounting standards.

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)?*

We believe that the place and role of each body of the three-tier structure should be clarified and enhanced.

The **Trustees**, in their responsibilities of establishing the due process, should have their role consolidated.

- They should ensure that the IASB's Board motivates changes and amendments envisaged to accounting standards. The IASB's Board should provide clear evidence of issues raised in practice showing the needs to review the accounting standards. He should explain the intended outcomes of the new proposals within the framework of public interest and financial stability requirements.

- Discussions should take place in order to evaluate how to improve the existing standards and what would be the strategic direction of the expected changes.
- The Trustees should be in charge of reviewing the feedback of the constituents' comments. Therefore, the IASB's Board should provide more formalized feedback of the constituents' comments and should motivate its responses to the objections received.
- The Trustees should be charged with considering the effects of standards changes on the accuracy and transparency of financial reporting.

The **Board of the IASB** keeps his technical role. However, he should be accountable to the Monitoring Board for the development of these standards within a work program discussed through an annual public consultation, objectives of public interest and financial stability requirements and through a due process improved as described in questions 5 and 6.

To ensure an independent standard setting process and to avoid a monopoly in developing and promulgating financial reporting standards, the control of the quality of the process should be strengthened within the Monitoring Board.

Therefore we suggest improving the composition and the role of the Monitoring Board as the oversight body of the IFRS standard setter organisation.

The **composition and representation of the Monitoring Board** should be extended to the Basle Committee and the Financial Stability Board and should not be only limited to public authorities responsible for setting financial reporting in capital markets.

In our view, the **role of the Monitoring Board** is to ensure a quality control in order to achieve a high quality globally accepted accounting standards.

In order to play fully his role, he should fulfil the following tasks:

- He should 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.
- He should be able to validate the Conceptual Framework and then validate the compliance of the concepts retained in the new standards with the Conceptual Framework
- He should complete the review of the quality of the standards with regard to the work program approved and especially with regard to the objectives of changes to the standard previously justified.

Process: how should the organisation best ensure that 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 programme?

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?

We believe that the principles under which the current due process is designed in the *IASB Due Process Handbook* could be improved in their practice as follows:

- We believe that the **consultation of the IASB agenda** should be part of the due-process. Constituents should debate on the priorities and timescales of the IASB's work as it would allow highlighting the needs of constituents and avoiding criticism that could be made on the relevance of the review of standards that do not cause any significant concerns in practice.

We welcome the decision of the IASB to launch its first triennial public consultation during the first quarter 2011. However, we believe that the future agenda of the IASB program should be published for annual public consultation instead of the three year consultation. A so long timetable would be most likely amended due to the difficulty to best estimate the time needed to finalize changes to standards and due to the economic and accounting events that might occur and that should be taken into consideration in the due course.

- **An adequate comment period** should be retained in order to allow stakeholders a sufficient time to review the new proposals in details, to measure their consequences and to provide high quality inputs on the major projects.

Therefore, following concerns should be taken into consideration. Many stakeholders have their own due process steps they must follow before issuing comment letters. Sufficient allocation of resources is needed to assess new accounting proposals. During period of time when entities prepare their financial statements, they are hardly available to focus adequate attention and resources on providing comments to the accounting projects.

We would like to refer to the short comment period of 60 days the IASB decided for the supplement to the exposure draft on impairment of financial instruments. We could not be convinced with the reasons given by the IASB's Board of a limited scope of the supplement and the fact that the concepts on which it is built might be already known. The impairment accounting is an important and complex matter that could not be assessed in a so partial and urgently manner. The scope of the questions of the supplement is wide. It relates not only on the joint model of impairment but also on the original proposals of the two Boards and on presentation and disclosures. Time is needed in order to review proposals in details, assess their effects and provide quality comments. Furthermore, the supplement has been published in a period when European entities focus all their resources on preparation of their financial statements.

- As far as the **deadlines of June 2011** are concerned, we believe they are too ambitious. The Board should not rush to complete its projects.

The risks identified are interpretational issues left when publishing the new standards and leading to ambiguity when applying this standard by entities, the difficulties for stakeholders to provide thoughtful comments and the difficulties for the Board to thoroughly consider the input received in the very short time frames provided.

The project of the IAS 39 standard review and the other interrelated projects deal with the core of financial instruments accounting and have huge consequences in terms of management decisions to be taken by entities and therefore on their business models. Moreover the phasing of these major projects does not provide a clear view of the overall impacts of the proposals.

We also question the forthcoming discussions between the IASB and the FASB about convergence that would likely have an impact on the future standards regarding financial instruments and that would lead to reverse decisions previously adopted by the IASB.

Therefore we suggest the IASB should review more realistic timelines. Longer periods of consultation should be provided for major projects with the opportunity to have an overall view of the proposals due to the piecemeal approach retained for the IAS 39 reform.

- In some cases, the Board motivates changes to standards as improvements while these changes obviously deal with the **Conceptual Framework**. We believe that fundamental changes to IFRS should be first debated at a conceptual level. It would allow consistency of accounting principles within accounting standards.

We would mention as an example the content of profit and loss and other comprehensive income as an increased number of items are recorded in the OCI.

- Although the **due process** is being followed in the form, in some cases we feel it has **not been achieved in substance** when strong objections were not taken into account. In these circumstances, we believe the IASB should be prevented from going ahead and from issuing final standards. Future standards should be widely accepted and reflect the feedback of public consultation.
- **Draft proposals** should be **re-exposed** as it is an opportunity to focus and precise things that might not have been clear and subject to discussions previously.
- Systematic **field-testing** of the proposals should be performed and their conclusions should be published before they are formally issued. The impact assessments should allow evaluating the practical effects of the future standards rather than interpreting the consequences of abstract concepts.
- A **post implementation review** is needed in order to consider and highlight new practical problems with standards and their implementation. This review should check that standards have not led to significant interpretation and implementation issues. It should be carried out two years after the new requirements have been implemented.
- An **adequate time for implementation** of standards and correlatively a **stable platform of accounting standards** should be retained given the scope of the future new standards planned, the efforts involved when implementing these new standards and the changes in external communication. Stakeholders should not be faced with frequent and huge changes to standards. Therefore, a regime for changing standards at realistic periodic intervals should be considered.

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?

We agree that to operate effectively and efficiently, the IASB and the Foundation should benefit from a stable funding.

Beside voluntary contributions and to ensure a permanent funding source, the European Commission contribution could be increased within the framework of the European law.

Other issues

8. Are there any other issues that the Trustees should consider?

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 the only jurisdiction 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.