

For the attention of Ms Tamara Oyre
International Accounting Standards Committee Foundation
30 Cannon Street
London
EC4M 6XH

19 September 2008

Dear Sirs,

Discussion document: Review of the Constitution – Public Accountability and the Composition of the IASB – Proposals for Change

We appreciate the opportunity to comment on this consultation by the International Accounting Standards Committee Foundation (IASCF) on its proposals for the first stage of the Constitutional Review. We have taken a close interest in the enhancements to the IASCF's structures and governance. We were pleased to be able to participate in the public roundtable on these proposals on 19 June, and our comments in this letter echo our statements at the roundtable.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this discussion document. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Our responses to each of the questions in the discussion document are contained in the attached Annex. In this covering letter we draw attention to what we consider to be some of the more significant issues. As we have yet to see any details of the matters to be covered in the second stage of the Constitutional Review, our views are subject to change based on what may follow in subsequent phases of the Trustees' consultation process.

Accountability at each level of the structure

We have been and are strong supporters of the concept of a single set of high-quality global accounting standards. As the consultation document notes, the Board performs a public-interest role in writing standards which are becoming increasingly accepted in many countries and transposed into law. Political acceptance of these standard-setting arrangements will therefore depend on national regulatory authorities being satisfied that there is real accountability at each tier of the structure – from the IASB to the Trustees and from the Trustees to the Monitoring Group.

We welcome the proposed Monitoring Group ('MG'). The area we consider will benefit most from further consideration in this first stage of the Review is the respective responsibilities and powers of the MG and Trustees. We note that the MG is not intended to sit within the IASCF structure, and that it will have its own charter and will agree a Memorandum of Understanding ('MoU') with the Trustees. We agree that the MoU should be made available to the public, as indicated in paragraph 18, and we support the Trustees' recommendation that the MoU should be exposed for public comment before being implemented.

For the Trustees, we suggest in our response to Question 3 that their accountability to the MG could be on a 'comply or explain' basis. That is, the Trustees' responsibilities would be clearly articulated and they would be required to show how they exercised those responsibilities. If they had not exercised a particular responsibility, they would have to explain and justify why that was the case.

Preserving independence with respect to technical matters

We believe the MG's power to refer matters for consideration by the IASCF or the IASB should be exercised very carefully, to ensure the independence of the IASB with respect to technical matters is preserved and that the Board is not seen to be controlled by or overtly subject to political influences. Taking the recent credit crisis as an example, one can appreciate that the MG might want to suggest – through the Trustees - that it would be appropriate for the IASB to take a fresh look at its standards on financial instruments and on special purpose and off-balance sheet vehicles. In so doing the MG might also be reflecting similar views expressed by other bodies. But it would not be appropriate for the MG to require or suggest specific changes be made to any particular standard.

We therefore expect that the MG would wish to be judicious in its role - satisfying itself, through the Trustees, that the Board was aware of areas of concern in a global context and had taken account of them in a manner that was appropriately justified - but allowing the Trustees to perform their oversight responsibilities on a day to day basis and protecting the independence of the Board with respect to technical matters.

Other matters – the Board

Regarding the proposed refinements to the size and geographical composition of the IASB, we are generally supportive. In stage two of the Constitutional Review, we suggest that one area for consideration should be the role and responsibilities of the Chairman of the IASB. The changed size, composition and hence dynamics of the Board will mean that the Chairman's role and powers should be looked at afresh. A further area for consideration would be the responsibility to set the technical agenda.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Richard Keys (+44 20 7212 4555), David Devlin (+353 1792 6351) or Graham Gilmour (+44 20 7804 2297).

Yours faithfully,

PricewaterhouseCoopers LLP

Responses to the questions in the discussion document

Questions related to the Monitoring Group

Q1. Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions?

Yes. Although the Trustees are accountable to a broad range of constituencies including the investor and preparer communities, we believe that a mechanism such as the MG is helpful in order to demonstrate political-level accountability of the Board and Trustees, and to generate support for the entirety of the constitutional proposals (once developed) from constituencies around the world.

Q2. The proposals contemplate a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognising that the MG is an autonomous body, the Trustees would welcome comments regarding the MG's membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.

In our view, the presence of several representatives of securities regulators on the MG but none from the banking or other financial sector regulators could be viewed as an omission, particularly in the current environment which has resulted in the financial reporting arrangements for financial sector institutions coming under close scrutiny.

We observed at the June 19 Roundtable that several of the participants noted that the exclusion from the MG of banking and insurance sector regulators was something the Trustees should consider. We note also the recent communication from the European Union finance ministers (ECOFIN 'Council Conclusions on IASB Governance' of 8 July) which states that *'the Monitoring board should be composed of relevant authorities responsible for the public interest.....including the global body representing authorities responsible for financial stability or key authorities involved in financial stability.'*

The global body responsible for promoting financial stability is the Financial Stability Forum, which is itself a representative organisation with a large number of national and international member bodies, including the IASB. IOSCO, IMF and the World Bank are also members of the Financial Stability Forum, and all three are already included in the proposed membership of the MG. If it was proposed that the Forum become a member of the MG, issues of potential duplication or overlap with other members of the MG may arise and would have to be considered. However, having in the MG a representative of the Basel Committee on Banking Supervision may be appropriate and could bring a different perspective.

We note that the consultation document specifies in the proposed Section 21 that members of the MG will be of senior-level status in their organisations (for example chairman or managing director). We believe this level of seniority is appropriate – and the presence of such high-level individuals on the MG will encourage individuals of similar status and wide experience to serve or continue to serve as Trustees.

Q3. The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRSs to review the Trustees' fulfilment of their constitutional duties. Does the formulation of the Monitoring Group's mandate, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?

We believe that there is a very delicate balance to be drawn in the respective responsibilities and powers of the MG and Trustees, such that both groups are playing a valuable role and engaging in constructive interaction, and that high-quality candidates of appropriate stature are willing to serve on both groups. If the MG's role is too intrusive, then the calibre of the Trustees will decline over time to the detriment of bringing broad-based input and experience to the oversight model. Conversely, if the MG's role is no more than a perfunctory one, then the whole model will not attract the necessary support around the world.

The Trustees' accountability to the MG could be on a 'comply or explain' basis. By that, we mean that the Trustees' responsibilities and authority would be clearly articulated and the Trustees would be required to show how they exercised those responsibilities. If they had not exercised a particular responsibility, they would have to explain and justify why that was the case. Of course, this presumes that the Trustees' detailed powers and responsibilities are clearly set out and agreed. This would be a necessary part of the second phase of the Constitutional Review.

We note (section 19c) that it is proposed that the MG can request meetings with the Trustees (with the chairman of the IASB as appropriate) about any area of work of the Trustees or the IASB and that such meetings may include discussion of issues that the MG has referred for consideration by the IASCF or the IASB. This implies that the MG could suggest or request that issues be added to the IASB's agenda. As discussed in our covering letter, we believe that this power will need to be considered very carefully, to ensure that the independence of the IASB with respect to technical matters is preserved and that the Board is not seen to be controlled by or overtly subject to political influences.

Q4. Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group in the selection of Trustees? If so, what should be the role and composition of the Trustee Appointments Advisory Group?

The Monitoring Group will provide public sector input to Trustee appointments. To the extent that the Trustee Appointments Advisory Group could comprise a broader or different group of inputs from the MG (for example from the private sector including user and preparer representatives), there would be a good argument to continue with it in order to provide a wider 'sounding board' to assist the MG and Trustees to maintain a balanced representation among the Trustees.

The Trustees would welcome any additional comments related to the Monitoring Group proposal.

To ensure that the new structures, once implemented, are working satisfactorily, we believe it would be important to have a look-back provision after two or three years. This would allow a public dialogue on whether the arrangements are operating as intended.

Questions related to the IASB's composition

Q5. Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy?

Yes. Although a smaller Board may be more manageable, we understand that it is not possible with a limited number of members to achieve the level of geographical coverage desired by public authorities. The functioning of an enlarged board could be one aspect that is looked at through a look-back provision. We see no reason why the increase in size of the Board should be permanent.

In expanding the Board for this purpose, it may be helpful to revisit the criteria for IASB membership to ensure that, while technical aspects remain paramount, sufficient weight is given to the liaison and communication aspects of Board members' roles.

Q6. Do you agree with the geographical formulation suggested by the Trustees?

Yes, we agree with the broad principle. Having members with different geographical backgrounds can help stakeholders to better identify with and communicate with Board members. However, recognising that regional pressures and influences will inevitably be exerted, care will be needed to ensure that this formulation does not result in greater politicisation of the standard-setting process, and appropriate safeguards (including the proposed constitutional requirement in section 25 for IASB members to act in the public interest) should be included.

The specific identification in section 26 of members from South America and Africa seems unnecessary and capable of being dealt with in the formulation previously proposed (four from any area), as it is for the Trustees' own geographical composition.

Q7. The Trustees are suggesting that the Constitution should provide flexibility on the matter of part-time membership. Do you support that proposal?

Yes, we support the proposed flexibility on part-time membership, although we also suggest there could be up to 4 part-time members (ie 25% of the enlarged Board). We have previously been supportive of retaining the possibility of a limited number of part-time members, as this may be a way of attracting skilled candidates whose careers may not otherwise permit them to participate in standard setting. Increasing the board size to 16 will in itself increase the task of the Trustees to recruit a sufficient number of high-quality candidates in future years – allowing the possibility of some part-time positions helps to widen the field of potential candidates to the maximum extent.

The Trustees would welcome additional comments on the proposals.

In stage two of the Constitutional Review, we suggest that one area for consideration should be the role and responsibilities of the Chairman of the Board. The changed dynamics of the Board – an enlarged membership, with many new members with perhaps less experience of standard setting, and at the same time a changed relationship with the Trustees and the MG - will mean that the Chairman's role should be looked at afresh. A further area for consideration would be the responsibility to set the technical agenda.