Dear Ms Oyre,

The European and North American Accounting Policy Committees of the International Swaps and Derivatives Association (“ISDA”) are pleased to jointly provide the following comments with respect to the second review of the IASC Foundation Constitution at the request of the Trustees’ meeting in March 2008 and in line with the specific calendar included in the Constitution that states that a review must be completed every five years.

ISDA has over 840 member institutions from 56 countries on six continents. These members include most of the world’s major institutions that deal in privately negotiated derivatives, as well as many of the businesses, governmental entities and other end users that rely on over-the-counter derivatives to manage efficiently the financial market risks inherent in their core economic activities. As such, we believe that ISDA brings a unique and broad perspective to the IASB’s work and the FASB’s work.

ISDA members welcomed that some of the proposals and suggestions made with regards to the IASB standard-setting process in our letter to IASC Foundation’s first review of the Constitution were subsequently adopted.

We recognise the significance of the present consultation because it directly relates to the legitimacy of the IASC Foundation. The reform may enhance the effectiveness of the works of the IASC Foundation (and its standard setter the IASB) worldwide, especially on the convergence of national accounting standards to high quality IFRS, which may facilitate investment and bring about economic prosperity too. In this letter we outline our key messages in response to the Discussion Paper and in the appendix we provide our more detailed responses to the questions included in the paper.

Our key messages are:

- We believe that the Constitution must provide a framework that enables the Trustees to protect the independence of the standard-setting process while ensuring sufficient due process and consultation.
• The Constitution should provide a shield from political interference that in some cases may be imbued in the policy options represented at multilateral organisations; therefore, the Monitoring Group should have a broader membership outlook to enhance independence and legitimacy.

• The Trustees should aim to strengthen the ties with public authorities, industry bodies and professional associations and therefore the present constitution review is a good opportunity to establish a link with them through the new Monitoring Unit.

• The IASB membership should be strictly based on professional expertise, merit and the capacity to contribute to technical accounting issues. Thus, geographical diversity is an important matter at the Monitoring Group level rather than at the IASB level.

• The members of the IASB should be requested to maintain current up-to-date knowledge of interpretation and application of existing accounting standards and in particular, on the way that IFRSs are being applied across the world and they should aim to increase field testing and public hearings.

In setting out our comments below we have followed the structure and references set out in the consultation paper. We hope you find ISDA’s comments informative and beneficial. Should you have any questions or desire any clarification concerning the matters addressed in this letter please do not hesitate to contact the undersigned.

Yours Sincerely,

Laurin Smith
Chair, North America Accounting Policy Committee

Melissa Allen
Chair, European Accounting Policy Committee

Antonio Corbi
International Swap and Derivatives Association
Risk and Reporting
Appendix:

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?

Since the Trustees do not have to report to a single authority that mandates the use of financial reporting standards, a constitutional framework that includes a Monitoring Group to formalize the relation with official institutions and public authorities worldwide may (i) considerably enhance the legitimacy of the IASC Foundation, (ii) support the work of the Trustees and (iii) facilitate the recognition of accounting standards worldwide.

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

Representation at the Monitoring Group should not be constrained to seven public authorities comprising mostly multilateral organizations.

Multilateral organisations are not democratically elected institutions as many other public authorities are and therefore other chartered official institutions representing the public interest and the industry worldwide may also be considered for the purpose of enhancing the legitimacy of the IASC Foundation. Multilateral organisations may embody a political agenda and therefore to maintain the independence of the IASC Foundation, other official institutions and professional organizations should also be included in the new Monitoring Group.

The new Monitoring Group should include chartered official institutions directly involved in accounting and auditing and the industry worldwide and thus providing geographical diversity to the IASC Foundation. Any professional body representing a particular industry i.e automobile, pharmaceutical, derivatives, financial institutions, which expresses a legitimate professional interest in accounting and auditing may be represented in the Monitoring Group.

Chartered institutions representing professional organizations and the industry (or other interested parties) may not always be directly accountable to public authorities but they are the recipients of the standards and will enhance the legitimacy of the IASC Foundation and facilitate the discharge its duties. The criteria to include these type of official institutions should always be a professional interest in the works of the accounting standard setting.
Q3 The Trustees will remain the body primarily responsible for the governance of the organization 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 and the Trustees’ reporting responsibilities, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?

The governance of the IASC Foundation should remain the main duty of the Trustees to protect the independence of the standard-setting process while ensuring sufficient due process and consultation on the application of IFRS across all jurisdictions.

To discharge their responsibilities and constitutional duties the Trustees should report to the Monitoring Group integrated by public bodies and official institutions representing a comprehensive section of professional practices and industries worldwide. Criteria for the inclusion of chartered official institutions in the Monitoring Group should be constrained to professional matters directly related to the standard setting. In this way the independence and legitimacy of the IASC Foundation will be enhanced and therefore the enforcement of standards facilitated in every jurisdiction.

The responsibilities of the Monitoring Group should include: (i) to participate in the process for appointing Trustees and to approve the appointments of the Trustees and (ii) a review function that should be conducted in a transparent manner and that will also allow the Monitoring Group to discharge its public duty as stated in the Memorandum of Understanding proposed in the amendment section numbers 18 and 19. It is recommended a public consultation to develop the Memorandum of Understanding.

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 creation of the Monitoring Group is an opportunity to clarify the structure of the IASC Foundation and enhance transparency. The Monitoring Group should replace the Appointments Advisory Group.

The role the Appointment Advisory Group is to help the Trustees in discharging their responsibility for proposing highly qualified individuals as Trustees. The final appointment was always preserved as one of the duties of the Trustees as a body. This role will be better accomplished by the Monitoring Group which will have a professional responsibility on the selection and appointment process in the public interest.
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?

The most important principle to select IASB members should be their knowledge, capacity, experience and commitment to the accounting work while the Monitoring Group should provide diversity across all jurisdictions worldwide and legitimacy to the IASC Foundation.

ISDA has previously stated in other letters to the IASC Foundation that the main requirement for membership should be (i) to maintain current up-to-date knowledge of the interpretation and application of existing accounting standards and (ii) to enhance members education on specific technical subjects such as accounting for financial instruments and derivatives in a rapidly changing world.

We think that the “quality” of the board members should have priority over their number. However, we recognize that the increase in the future workload may justify two more members so long as the new members bring fresh knowledge on financial instruments and derivatives.

Therefore, the increase in the number of members from 14 to 16 should be better justified by incorporating two specialists in these areas rather than by the ability to communicate properly across the world. A knowledgeable member will communicate properly across jurisdictions.

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

The public interest is better served by selecting the members of the IASB based on professionalism, experience, knowledge, merit and the capacity to contribute to technical accounting issues while geographical diversity should be reserved for the Monitoring Unit, not the IASB.

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

With the aim to attract an accounting specialist that may provide a valuable contribution to the standard setting process, the IASC Foundation may hire part-time members. However, before selecting any part-time professional it is important to make sure that there are no potential conflicts of interest that may disqualify them for this role.