

24 February 2011

The Trustees
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

By email to: strategyreview-comm@iasb.org

Dear Sirs

Consultation on Trustees' Strategy Review

I am writing on behalf of AFME (the Association for Financial Markets in Europe) to respond to the IFRS Foundation's 5 November "Paper for Public Consultation" on the Status of the Trustees' Strategy Review ("the Paper"). AFME is, as you know, the leading European trade association for firms active in investment banking and securities trading; it was established in November 2009 as a result of the merger of LIBA (the London Investment Banking Association) and the European Branch of SIFMA (the US-based Securities Industry and Financial Markets Association), and thus represents the shared interests of a broad range of participants in the wholesale financial markets. We welcome the opportunity to respond to this consultation.

Our responses to the questions set out on pages 3-4 of the Paper are set out below.

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?*
 - A. We see no need to amend this statement.
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?*

- A. We fully support the IASB’s stated objective of general purpose financial reporting (as set out in paragraph OB2 of the new Conceptual Framework): “to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity”. We note also with approval the comment in paragraph OB10 that “other parties, such as regulators ... may also find general purpose financial reports useful. However **those reports are not primarily directed to these other groups**” (emphasis added).

We would encourage the IASB (and, where appropriate, the IFRS Trustees) to engage with regulators and other stakeholders to explore how the utility of general purpose financial reports to stakeholders other than the primary users (i.e. the capital providers described in OB2) can be improved. It is however of paramount importance that any resulting modifications to IFRSs do not in any way disadvantage the primary users, *inter alia* because:

- Different users often require different, but equally sound, accounting treatments for economically identical fact patterns, reflecting the different uses which they make of the financial reports: the use made by a shareholder with a primary interest in forecasting future earnings, will, for example, typically be very different from the use made by a regulator with primary interests in the solvency of the entity and in the identification of any associated systemic risks. Any compromise which attempts to meet the needs of such different classes of user risks producing reports which are of reduced value to any one of these groups.
- Regulators (and other government bodies, such as fiscal authorities) typically have considerable powers to require entities under their jurisdiction to provide them with any necessary supplementary information. Such powers are, however, generally not available to the providers of capital (almost certainly not to smaller current and prospective shareholders) whose decisions therefore depend to a much greater degree on the general purpose financial reports.

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?*
- A. Overall, we believe the present structure works well. It may however be too early to judge whether all stakeholders regard the Monitoring Board (which was established only in January 2009, with the European Commissioner joining the Board somewhat later) as fully meeting their expectations; we therefore recommend that the detailed *modus operandi* of the three-tier structure should remain under review to see whether further “fine tuning” would be appropriate in the light of experience.

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)?*

A. Consistent with our response to the previous question, we note that it may be too soon to assess whether the Monitoring Board arrangement is generally seen as having resulted in improved public accountability. While our members have few concerns in this area, we regard it as of paramount importance that all significant stakeholders should, similarly, have the highest degree of confidence in the legitimacy of the governance arrangements. We therefore urge the Trustees to remain sensitive to constructive criticism of these arrangements and to be prepared to undertake further consultation on possible enhancements as and when appropriate.

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?*

A. We believe the present process is generally effective.

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?*

A. Such issues will inevitably arise more frequently as IFRSs are adopted more widely, particularly in those jurisdictions where the social and political ethos is significantly different from countries where IFRSs were initially applied. The IASB must develop ways of dealing with these issues without prejudicing its overriding commitment to produce high quality standards that meet the requirements of a well functioning capital market.

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?*

A. We have no AFME view on this point.

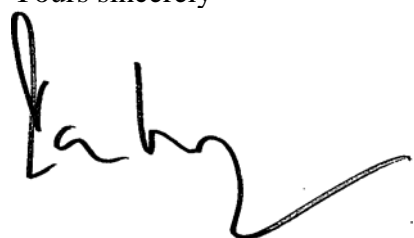
Other issues

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

A. We have no other issues to raise at this time.

I hope these comments are helpful. We would of course be pleased to discuss any points which you may find unclear, or where you believe AFME members might be able to assist in other ways.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Harrison', with a long, sweeping horizontal stroke extending to the right.

Ian Harrison

Managing Director

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