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## **EACB Comments on IFRS Foundation Monitoring Board Consultative Report on the Review of the IFRS Foundation's Governance**

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**The European Association of Co-operative Banks (EACB)** is the voice of Co-operative Banks in Europe. It represents, promotes and defends the common interests of its 28 members and co-operative banks in general. Co-operative banks form decentralised networks which are governed by banking as well as co-operative legislation. The co-operative banks business model is based on three pillars: democracy, transparency and proximity. Through those pillars co-operative banks act as the driving force of sustainable and responsible development by placing the individual at the heart of their activities and organization. In this respect they widely contribute to the national and European economic and social objectives laid down in the Lisbon Agenda. With 63.000 outlets and 4.200 banks, co-operative banks are widely represented throughout the enlarged European Union playing a major role in the financial and economic system. In other words, in Europe one out of two banks is a co-operative. Co-operative banks have a long tradition in serving 160 million customers, mainly consumers, retailers and SMEs. They have also developed a strong foothold in the corporate market providing services to large international groups. Quantitatively co-operative banks in Europe represent about 50 millions members, 750,000 employees with a total average market share of about 20%.

For further details, please visit [www.eurocoopbanks.coop](http://www.eurocoopbanks.coop)

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*The voice of 4.200 local and retail banks, 50 million members, 160 million customers*

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## Preliminary remarks

The members of the European Association of Cooperative Banks (EACB) welcome the opportunity to give their views on the Monitoring Board Report on Governance Review.

EACB took note that the Monitoring Board is looking to receive comments primarily focusing on institutional aspects of governance, particularly the composition and the respective roles and responsibilities of the Monitoring Board, Trustees and IASB. By contrast, the consultation launched by the Trustees on the strategy review, which has closed at the end of February 2011, focused on the operational aspects of governance, particularly the standard-setter's process.

While we understand those two projects have a different scope, we are of the opinion that they will inevitably be interdependent and will affect each other. Therefore, EACB asks the Monitoring Board to coordinate the governance review with the strategy review conducted by the Trustees.

The fundamental question for the review is whether the current governance structure effectively promotes the standard-setter's primary mission of setting high quality, globally accepted standards as set forth in the Constitution of the IFRS Foundation, and whether the standard-setter is appropriately independent yet accountable.

In this respect, we consider that the governance role of the Monitoring Board should consist of designing the mission, fundamental structure, composition and due process of the IFRS Foundation and overseeing that it is functioning as anticipated.

Moreover, while co-operative banks are fully private entities competing in the market, they have their specific business model, which differs from commercial banks on some particular aspects (i.e. capital, governance and ownership). Therefore, we would like to stress that since IFRSs are designed for all types of companies, a high standards setting process should also allow the maintenance of differences among business models (i.e. cooperatives, partnerships etc.) and taking into account their accounting issues. Typically, the composition of the Board should emphasis this variety through relevant competence and experience.

In addition, the members of the EACB believe that the Board members should stem from countries where IFRS are the set of accounting standards required for listed companies. Moreover, as bankers, we would consider especially relevant extending the composition of the Monitoring Board to the Basel Committee.

Please find in the appendix our detailed comment on some of the individual questions outlined in the consultation document.

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## Appendix

### IASB:

#### **Question 1**

- ***Do you agree with the proposal to urge concrete efforts to deepen the pool of candidates for IASB membership from diverse geographical and professional backgrounds? Please provide reasons for your agreement/disagreement.***

The members of the European Association of Co-operative Banks (EACB) support that the Monitoring Board recommends the IASB to undertake further concrete efforts to improve identification of qualified candidate ensuring that the IASB Board membership included more diverse geographical and professional backgrounds. In fact, the EACB believes that enhancing the geographical and sector balance within the IASB would calm concerns on legitimacy and provide more credibility to the standards setter.

Most important, we consider that the Board members should stem from countries where IFRS are the set of accounting standards required for companies. Others should not have the same voting rights, which would be an incentive for adoption. In this respect, we regret the limited membership of the European participants (four members out of sixteen) while the European Union represents the major economies where all publicly traded companies are required to report under IFRS standards since 2005. Moreover, Board members should have an effective and substantial experience in application of IFRS in national standard setter bodies and includes a higher proportion of supervisors.

As co-operatives, we think it is of first importance that Boards composition reflects a wide-ranging knowledge of various economic models and environment of companies, which would apply the IFRSs. While co-operative banks are fully private entities competing in the market, they have their specific business model, which differs from commercial banks on some particular aspects (i.e. capital, governance and ownership). Since IFRSs are designed for all types of companies, a high standards setting process should also allow the maintenance of differences among business models (i.e. cooperatives, partnerships etc.) and taking into account their accounting issues. Therefore, we would strongly appreciate that some Board members have a relevant and recent enough knowledge and experience in cooperative businesses.

#### **Question 2**

- ***Do you agree with the proposal to separate the roles of the IASB Chair and the CEO of the IFRS Foundation, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/ disagreement.***

EACB would support this type of initiatives aiming to safeguard the independence of the IASB standard-setting process.



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### Question 3

- ***Do you agree that clearer division of responsibility between staff dedicated to the IASB operations and staff dedicated to the Foundation's administrative and oversight functions should be considered, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/disagreement.***

n/a.

### Trustees:

#### Question 4

- ***Please provide comments on any aspects of Trustee composition or appointments that you believe the Monitoring Board should consider.***

EACB agrees with the recommendation made by the Monitoring Board regarding the diversity of the Trustees' geographical and professional background (please refer to our response to question 1).

#### Question 5

- ***Do you agree with the proposal to provide increased transparency into the process for Trustee nominations? Please provide reasons for your agreement/disagreement. To what extent should the Monitoring Board be involved in the nomination process?***

As stated previously, EACB generally supports more transparency in the nomination process of the members of the IASB, the Monitoring Board and also the Trustees.

We consider that the governance role of the Monitoring Board should consist of designing the mission, fundamental structure, composition and due process of the IFRS Foundation and overseeing that it is functioning as anticipated.

- ***Do you agree that further clarification of criteria for the Trustees' candidacy would help support confidence of the stakeholders? Please provide reasons for your agreement/disagreement.***

n/a.



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## Monitoring Board:

### **Question 6**

- ***Should the membership of the Monitoring Board continue to be confined to capital markets authorities responsible for setting the form and content of financial reporting in respective jurisdictions?***
- ***Do you agree with the proposal to expand the Monitoring Board's membership by adding a mix of permanent members ([four]) representing primarily major emerging markets and rotating members ([two]) from all other markets? Please provide reasons for your agreement/disagreement. How should the major markets be selected? Should a jurisdiction's application of IFRSs and financial contribution to standard-setting play a role?***

EACB supports improving the composition of the Monitoring Board and we therefore agree with the recommendation to expand the membership to include more capital markets authorities.

However, we also think that the Monitoring Board should not be only limited to public authorities responsible for setting financial reporting in capital markets. We suggest extending the composition of the Monitoring Board to the Basel Committee as well.

### **Question 7**

- ***Do you agree that rotating members should be selected through IOSCO? Please provide reasons for your agreement/disagreement.***

We wonder whether it is appropriate to give a single multilateral organisation that privilege when there are some other organisations which members could also be selected.

- ***Do you agree that the Monitoring Board should continue to make its decisions by consensus? Please provide reasons for your agreement/disagreement. Are there any types of decisions taken by the Monitoring Board for which voting other than by consensus (for example, by qualified majority) may be appropriate? If so please describe why and suggest an appropriate voting mechanism.***

We think that the Monitoring Board should continue to make its decisions by consensus. Moreover, this would be easily manageable in practice since it is generally agreed to limit the overall size of the board to ensure efficiency and effectiveness.

### **Question 8**

- ***To ensure increased involvement of public authorities and other international organizations in Monitoring Board activities, do you support the Monitoring Board (a) expanding the number of Monitoring Board observers, (b) holding more formalized dialogue, or (c) establishing an advisory body, and on what basis? What should be the criteria for selecting participants?***



We share the view that the Monitoring Board should not be only limited to public authorities responsible for setting financial reporting in capital markets and should be extended for instance to the Basel Committee (see our response to question 6).

Actually, considering the growing interaction between IFRS standards and prudential requirements, we are convinced that regulators and particularly prudential regulators have a role to play within the standard-setting process. While we recognise that it might not be possible to remove all differences between financial reporting and regulatory requirements, we believe that the IASB and supervisors should work in close cooperation in order to align as far as possible reporting requirements. In particular, we would encourage increasing cooperation with the Basel Committee when developing a set of high-quality global accounting standards.

#### **Question 10**

- ***What are the appropriate means and venues for the Monitoring Board to enhance the visibility and public understanding of its activities?***

*n/a.*

#### **Question 11**

- ***Do you believe that the current arrangements for Monitoring Board involvement in the IASB's agenda-setting are appropriate, or should the Monitoring Board have an explicit ability to place an item on the agenda, or would you consider other alternatives that would enhance the Monitoring Board involvement in the IASB agenda setting? Please provide reasons.***

EACB generally considers that the IASB's technical agenda-setting could be more consultative. For instance, we would welcome that the IASB begins its deliberations on the future agenda by launching an annual public consultation process as requested by many other constituents as well.

Therefore, we think it is relevant to involve the Monitoring Board in the IASB agenda setting (in particular, whether its composition is extended to prudential regulators as the Basel Committee, see responses to question 6 and 8). In this respect, we would recommend the Monitoring Board to validate the IASB 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.

#### **Question 12**

- ***Do you have concrete suggestions on how the Monitoring Board or the Trustees could encourage a move towards a more stable and independent funding model?***

*n/a.*



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### Question 13

- ***Do you believe that the Monitoring Board should have a more prominent role in the selection of the IASB Chair? Do you agree with the proposal that the role include involvement in establishing a set of publicly disclosed criteria for the Chair, and assessment of a short list of candidates against those criteria? Please provide reasons.***
- ***Do you believe that the Monitoring Board should be given any further, specific role in the selection of the IASB Chair? In particular, should the Monitoring Board approve the Trustees' final selection? Please provide reasons.***

n/a.

### Question 14

- ***Do you agree that the Monitoring Board's responsibilities should explicitly include consultation with the Trustees as they further develop the framework to ensure proper balance in the composition of the IASB? Please provide reasons for your agreement/disagreement.***

n/a.

### Question 15

- ***Do you agree with the proposal to consider establishing a permanent secretariat for the Monitoring Board to support its increasing roles in overseeing the governance of the standard-setter? Would you support this proposal even if it would require additional financial contributions from stakeholders? Please provide reasons.***

As stated in our comments to the Trustees' consultative document earlier in February 2011, to achieve a high quality globally accepted accounting standards, the Monitoring Board should be an independent structure outside the IFRS Foundation.

In particular, EACB understands critics expressing that the IFRS Foundation should not contain its own Monitoring Board as it becomes both judge and jury. We agree that to ensure its independence, having its own financing might be a good solution.

### Other:

### Question 9

- ***Do you believe that the current arrangements for the standard-setting process adequately ensure the appropriate involvement of all relevant stakeholders and that all relevant public policy objectives are taken into account? Please provide reasons for your agreement/disagreement.***



EACB supports the steps made by the IFRS Foundation to allow stakeholders to express their views during the IASB standard-setting process. However, we think that there is still room for improvements to allow stakeholders to express better their views during the standard-setting process.

We would warmly recommend the introduction of impact assessments prior to the issuance of Exposure Drafts and post-implementation, giving greater consideration of the number of amendments that users and preparers of financial information can reasonably absorb within certain timeframes. As an illustration, we would like to recall our strong concerns regarding the review of the IAS 39. Banks definitely need more time to assess all the consequences (expected to be huge) of the application of the new IFRS 9 from a management perspective as well as regarding the internal processes, IT systems, personal training etc.

In addition, it has to be made sure that the IASB agenda is not as congested as it has been recently. In this respect, we urge that sufficient time comment periods should be retained in order to give us adequate time to assess new proposals in detail and be able to provide high level inputs (i.e. we would like to refer again to the short comment period of 60 days the IASB decided for the supplement to the exposure draft on impairment of financial instruments). Generally, we think that there should never be a rush when reviewing/adopting IFRSs. Moreover, we fear that standards finalised under heavy time pressure may give rise to more changes in the later period either by IFRS interpretations or revisions of the standards.

The Monitoring Board should carry out the control of the quality and the relevance of the standards at each step of the due process in order to achieve a high quality globally accepted accounting standards. The review of the quality of the standards should be performed especially with regard to the objectives of changes previously justified. To achieve this goal, the Monitoring Board should be an independent structure outside the IFRS Foundation.

#### **Question 16**

- ***Do you agree with the need for regular reviews, and the interval of five years as a benchmark? Should the reviews be aligned with the timing of the Foundation's mandated Constitution reviews? Please provide reasons for your agreement/disagreement.***

*n/a.*

#### **Question 17**

- ***Do you have any other comments?***

*n/a.*