



Via Email

November 30, 2009

Tamara Oyre
Assistant Corporate Secretary
IASB Foundation
Email: toyre@iasb.org

*Re: Part 2 of the Constitution Review—Proposals for Enhanced Public
Accountability¹*

Dear Ms. Oyre:

I am writing on behalf of the Council of Institutional Investors (“Council”), a nonprofit association of public, union and corporate pension funds with combined assets that exceed \$3 trillion. Member funds are major shareowners with a duty to protect the retirement assets of millions of American workers.²

The Council appreciates the opportunity to provide its views on the International Accounting Standards Committee (“IASC”) Foundation’s September 2009 discussion document entitled, “Part 2 of the Constitution Review—Proposals for Enhanced Public Accountability” (“2009 DD”). We note that we previously provided the IASC Foundation our comments in response to the December 2008 discussion document entitled, “Review of the Constitution—Identifying Issues for Part 2 of the Review”³ and the July 2008 discussion document entitled, “Review of the Constitution—Public Accountability and the Composition of the IASB Proposals for Change.”⁴ Finally, we also note that we provided the IASC Foundation our views about the 2009 DD at the “Constitution Review roundtables” held on October 6th in New York City.

¹ IASC Foundation, Part 2 of the Constitution Review, Proposals for Enhanced Public Accountability 1-52 (Sept. 2009), <http://www.iasb.org/NR/rdonlyres/4A1F6AB1-B0A6-456C-8457-6B0EEB8524B8/0/ConstitutionalreviewpartII.pdf>.

² For more information about the Council of Institutional Investors (“Council”) and its members, please visit the Council’s website at http://www.cii.org/about/council_members.

³ Letter from Jeff Mahoney, General Counsel, Council, to Tamara Oyre, Assistant Corporate Secretary, IASC Foundation 1-11 (Mar. 26, 2009), [http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/March%2026%202009%20Letter%20to%20Oyre%20\(final%20with%20letterhead\).pdf](http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/March%2026%202009%20Letter%20to%20Oyre%20(final%20with%20letterhead).pdf).

⁴ Letter from Jeff Mahoney, General Counsel, Council, to Tamara Oyre, Assistant Corporate Secretary, IASC Foundation 1-9 (Sept. 25, 2008), [http://www.cii.org/UserFiles/file/resource%20center/correspondence/2008/September%2025%202008%20Council%20Letter%20to%20Oyre%20\(final\)\(1\).pdf](http://www.cii.org/UserFiles/file/resource%20center/correspondence/2008/September%2025%202008%20Council%20Letter%20to%20Oyre%20(final)(1).pdf).

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The Council's significant and ongoing interest in the IASC Foundation's constitution review is a result of our membership-approved policy entitled "Independence of Accounting and Auditing Standard Setters" ("Policy").⁵ The Policy generally supports the Financial Accounting Standards Board ("FASB") and the Financial Accounting Foundation ("FAF") working cooperatively with the International Accounting Standards Board ("IASB") and the IASC Foundation "toward a common goal of convergence to a single set of high quality standards designed to produce comparable, reliable, timely, transparent and understandable financial information that will meet the needs of institutional investors and other consumers of audited financial reports."⁶ Importantly, however, the Policy does not support replacing United States Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") or replacing the FASB and the FAF with the IASB and the IASC Foundation, respectively, unless and until seven criteria or milestones have been addressed and resolved to the satisfaction of investors—the primary consumers of financial reports.⁷

Most of the required criteria or milestones contained in the Policy are related to the quality of the governance of IFRS standard setting. Thus, those criteria or milestones are, in our view, highly relevant to the IASC Foundation's constitution review.

⁵ Council, **Independence of Accounting and Auditing Standard Setters**, 1-2 (Updated Oct. 7, 2008), <http://www.cii.org/UserFiles/file/council%20policies/Policies%20on%20Accounting%20and%20Auditing%205-7-09.pdf>.

⁶ *Id.* at 1.

⁷ *See id.*; cf. Letter from Jeff Mahoney, General Counsel, Council, to Florence E. Harmon, Acting Secretary, Securities and Exchange Commission 1-3 & Attachment (Apr. 20, 2009), [http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/Letter%20to%20SEC%20on%20Proposed%20Roadmap%20\(final\).pdf](http://www.cii.org/UserFiles/file/resource%20center/correspondence/2009/Letter%20to%20SEC%20on%20Proposed%20Roadmap%20(final).pdf) (Discussing the application of the Council's policy of "Independence of Accounting and Auditing Standard Setters" to the Securities and Exchange Commission's ("SEC") "Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers: Proposed Rule"). Our concern about the potential replacement of the Financial Accounting Standards Board ("FASB") with the International Accounting Standards Board ("IASB") appears to be shared by most financial executives in the United States ("U.S."). In a recent national survey of U.S. chief financial officers ("CFOs") and senior comptrollers conducted by Grant Thornton LLP, seventy-one percent believe that the FASB should set U.S. accounting standards, not the SEC, the IASB, or the U.S. Congress. *71% Of Senior Financial Executives Say That FASB Should Set U.S. Accounting Standards, Not IASB...*, Bus. Wire 1 (Oct. 29, 2009), <http://www.allbusiness.com/government/government-bodies-offices-legislative/13344711-1.html>; cf. Professor Donna L. Street, Mahrt Chair in Accounting, University of Dayton, *International Convergence of Accounting Standards: What Investors Need to Know* 26 (Oct. 2, 2007), [http://www.cii.org/UserFiles/file/resource%20center/key%20governance%20issues/international%20convergence/International%2520Convergence%2520White%2520Paper%2520\(Final\)%252011-14-07.pdf](http://www.cii.org/UserFiles/file/resource%20center/key%20governance%20issues/international%20convergence/International%2520Convergence%2520White%2520Paper%2520(Final)%252011-14-07.pdf) (Noting that sixty-eight percent of U.S. CFOs and other finance professionals polled responded that they were unwilling to give up control of establishing accounting standards to an international accounting standard setter).

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More specifically, we believe that the IASC Foundation constitution should not include any provisions that are in conflict with the following criteria or milestones contained in the Policy:

- The international standard setter has sufficient resources—including a secure stable source of funding that is not dependent on voluntary contributions of those subject to the standards;
- The International standard setter has a full-time standard-setting board and staff that are free of bias and possess the technical expertise necessary to fulfill their important roles;
- The international standard setter has demonstrated a clear recognition that investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs. This includes having significant, prominent and adequately balanced representation from qualified investors on the standard setter's staff, standard-setting board, oversight board and outside monitoring or advisory groups;
- The international standard setter has a thorough public due process that includes solicitation of investor input on proposals and careful consideration of investor views before issuing proposals or final standards; and

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- The international standard setter has a structure and process that adequately protects the standard setter's technical decisions and judgments (including the timing of the implementation of standards) from being overridden by government officials or bodies.⁸

The attachment to this letter provides our comments in response to some of the specific questions raised in the 2009 DD. Our comments focus on those questions and related existing or proposed provisions of the IASC Foundation's constitution that we believe are in conflict with the above-referenced provisions of our Policy and, therefore, should be changed. We wish to emphasize that it is highly unlikely that the Council would support the potential replacement of the FAF and FASB with the IASC Foundation and the IASB, respectively, without the adoption of meaningful changes to the IASC Foundation's constitution that resolve the conflicts we have identified.

We very much appreciate the opportunity to comment on the 2009 DD. If you have any questions or need any additional information, please feel free to contact me at 202.261.7081 or jeff@cii.org.

Sincerely,



Jeff Mahoney
General Counsel

Attachment

⁸ Council, *supra* note 5, at 1-2. In commenting on some of the governance challenges facing the IASB, FASB Chairman Robert H. Herz recently indicated that “[w]hile FASB has come under pressure domestically from financial institutions and other groups, IASB has encountered ‘even greater challenges’ from government bodies ‘that do not seem to agree with, or accept that financial reporting should be geared toward investors in the capital markets and that accounting standards should be established in an independent, neutral and thorough fashion’” Steven Marcy, *Herz Says Political Pressure Threatens Financial Reporting, Regulatory Success*, 209 BNA, Inc. Daily Rep. Executives G-3 (Nov. 2, 2009) (on file with Council); *see also* Professor Donna L. Street, *supra* note 7, at 28 (Citing accounting experts who agree that “with lobbying from ‘multiple governments with differing priorities and multiple business communities with various interests to protect’ pressures on the IASB will eventually exceed those ever faced by any national standard setter and make development of ‘principles-based’ standards a massive challenge”).