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Directorate General Financial Stability, Financial Services and Capital Markets Union

Director General

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Michel Prada
Chairman of the Trustees
30 Cannon Street
London EC4M 6XH
United Kingdom

Subject: Trustees' review of structure and effectiveness

Dear Mr Prada,

I would like to thank you for the opportunity to contribute to the Trustees' review of the IFRS Foundation. As you know, this review comes shortly after the European Commission issued a report from its evaluation of the "IAS Regulation". My letter draws on this report to answer the governance part of the Trustees' questionnaire (section "*IFRS Foundation as an organisation*"). The Commission mandated EFRAG, its technical advisor, to answer the remaining parts of the review.

The Trustees' questionnaire discusses, among other matters, the structure of the IFRS Foundation, allocation of its senior positions, funding and future reviews.

The IFRS Foundation operates under an elaborate three-tier structure which was designed to favour transparency, segregation of duties and adequate oversight. However, this structure is undermined by a weak performance of its "top tier", the Monitoring Board, often criticised for failing to deliver sufficient added value. Our experience as a founding member of the Board confirms this assessment. Firstly, the Board has so far only dealt with issues relating to its own organisation and composition. Secondly, the Board has never fulfilled its key duty of identifying and referring issues of public interest to the IASB for further consideration. Finally, the prospects of any improvement remain weak due to disagreements among Board members as to the exact mandate of the Board.

The European Commission recommends that the Monitoring Board should refocus its attention from issues of internal organisation to discussing matters of public interest that could be referred to the IFRS Foundation.

Should the Monitoring Board fail to reform rapidly, the European Commission is prepared to work with the IFRS Foundation on alternative solutions such as, for instance, establishing a new oversight body.

The other two issues in the review, namely how the Foundation should allocate its senior positions between different regions and how it should secure adequate funding, are, in my opinion, linked.

Historically, the geographical distribution of senior positions has only been influenced by "regional quotas", i.e. a fixed number of posts going to different regions such as "Europe", "Asia", "North America". This relatively flexible system has allowed the IFRS Foundation to engage with almost every country declaring itself "committed to IFRS", leading to several years of spectacular progress in IFRS adoption worldwide. However, now that the number of countries using IFRS has stabilised with no major breakthroughs in sight, the geographical distribution of senior positions should prioritise countries which have backed their declarations with concrete actions, including the use of IFRS and permanent contributions to the IFRS Foundation.

The European Commission urges the IFRS Foundation to ensure that the use of IFRS and the existence of a permanent financial contribution are conditions for membership of the governing and monitoring bodies of the IFRS Foundation and of the IASB.

I am convinced that this arrangement will not only reward countries most committed to IFRS but also help the Foundation with putting in place its "target funding mechanism".

Regarding the issue of future reviews, the Trustees propose to focus them on strategy rather than governance. They also advise against launching new reviews every five years and suggest instead that a new review shall start only five years after the completion of the previous one. Whereas I can agree that the frequency of reviews should not represent an unnecessary burden for the IFRS Foundation, the scope of these reviews should remain broad and include the fundamental issue of governance.

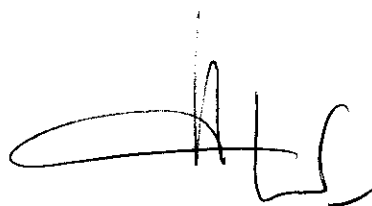
Finally, the review questionnaire asks whether the Trustees should consider any other issues relevant to the Foundation's structure or effectiveness. One such issue could be the impact of IFRS on the broader economy. Our evaluation of the "IAS Regulation" recognises recent attempts from the IASB to improve impact analysis of their standards. These efforts should continue so that forthcoming standards, such as those relating to leases and insurance contracts, are accompanied by robust analyses of their effects.

The European Commission urges the IASB to strengthen their impact analyses, to consider the specific needs of investors with different investment time horizons and to provide specific solutions, in particular to long-term investors, when developing their standards.

I count on the ongoing review of the structure and effectiveness of the IFRS Foundation to improve its governance and public accountability by considering and implementing the above mentioned recommendations.

I would like to wish you every success with this review and am available to discuss any of the above mentioned issues in greater detail.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Olivier Guersent', with a stylized flourish at the end.

Olivier GUERSENT